AUDITOR
GENERAL
Alberta

Report of the Auditor General of Alberta

OCTOBER 2015

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Ms. Denise Woollard, MLA
Chair
Standing Committee on Legislative Offices

I am honoured to send my *Report of the Auditor General of Alberta—October 2015* to Members of the Legislative Assembly of Alberta, as required by Section 19(5) of the *Auditor General Act*.

[Original signed by Merwan N. Saher FCPA, FCA]
Auditor General

Edmonton, Alberta
September 28, 2015

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Auditor General's Message and Recommendations

REPORT OF THE AUDITOR GENERAL OF ALBERTA

October 2015

Auditor General's Message

We have repeatedly stressed that the quality of the systems that the government uses to manage its work is proportional to the quality of the oversight it provides. In other words, good oversight will invariably produce better systems to achieve desired results.

We continue to state that those who are responsible for oversight need to:

- be vigilant
- check that processes and systems, including the accountability-for-results system, are working well
- signal preferred behaviour

all in the pursuit of desired results.

And, critically, oversight is not operational management—which is the responsibility of public service managers. Oversight should be thought of as the exchange of resources for expectations. If management cannot deliver the results agreed on, those with oversight should make changes. They must resist doing management's job.

Can there be levels of cascading oversight—'oversight of oversight' or even 'oversight of oversight of oversight'? The answer is yes. Ministers, with the assistance of their deputy ministers, exercise oversight of the boards put in place to oversee provincial agencies. And Albertans should exercise oversight of their government ministers' oversight of those boards.

Oversight, at multiple levels, is a recurrent theme in this report. While our recommendations are specific to the organizations in this report, there are lessons to be learned for every department and board-governed agency.

Examples of good oversight can be found at the following pages:

- **Page 51—Alberta Health Services—Managing healthcare waste materials**
  By assigning the responsibility for oversight of healthcare waste at all AHS sites to its Linen and Environmental Services branch, AHS implemented all four recommendations we made in 2012.
- **Page 57—Athabasca University—Information technology**
  By developing and implementing oversight processes for IT strategic planning and project management, the university was able to implement four IT recommendations we made in 2010.
- **Page 123—Universities financial statement preparation**
  All four universities with March year-ends (Alberta, Athabasca, Calgary and Lethbridge) continue to sustain effective processes to prepare timely and accurate financial statements. The universities prepare clear documentation and support for financial reporting conclusions that significantly enhance the universities' financial reporting preparation and internal controls throughout the fiscal year. The universities are continuously working to improve financial reporting systems and management's decision making ability. Continued board vigilance will ensure continued strong financial reporting systems and will also increase opportunities to use results analyses to better communicate the universities' performance and accountability for results.

Innovation and Advanced Education—Post-secondary institutions

For-profit and cost recovery ventures (page 21)—we have concluded that the Department of Innovation and Advanced Education does not have adequate processes to oversee the unique risks that post-secondary institutions take on when they generate revenue from these ventures. The department's oversight is necessary to ensure that each board of governors is properly overseeing its institution's additional risks from seeking alternative sources of revenue. Such oversight will protect Albertans from unjustifiable risk and resultant cost, in relation to generating new sources of revenue.

Olds College, IT system implementation (page 29)—the college's implementation plan has significant weaknesses in the design of its project management, business change management and senior management project oversight controls for the enterprise resource planning (ERP) project. College management cannot assure the board of governors of a successful system implementation without rectifying the weaknesses.

The board is unable to provide effective oversight of the project, as it is not regularly receiving complete information on project risks, mitigation plans and whether appropriate actions are being taken. The board's decision to approve the system going live is significantly impacted by the lack of complete information on implementation readiness.

Education—School jurisdictions (page 80)

School jurisdiction audited financial statements—in accordance with Section 19(4) of the *Auditor General Act*, we have compiled a summary of the results of school jurisdictions audited fiscal 2014 financial statements. Total balances for cash, cash equivalents and portfolio investments, unrestricted surplus and operating reserves, and capital reserves have increased from amounts in 2013. Reserves are unrestricted surplus amounts that school trustees have internally restricted for planned future operating or capital expenditures.

As with our fiscal 2013 summary report, we were unable to identify any analysis in the Department of Education's annual report of the reasonableness of these balances and their correlation with future plans at the school jurisdictions to use these funds. Potential uses include performance improvement, capital asset acquisition or enhancement, and funding future operating deficits. The department and Albertans could use such analysis to hold school trustees accountable for achieving desired results from the effective use of accumulated surpluses at their school jurisdictions.

Financial statements (page 67)

The Government of Alberta prepares financial statements and makes them public to inform Albertans about the province's financial performance. The Office of the Auditor General, under the *Auditor General Act,* audits the financial statements of the Province of Alberta, as well as every ministry, department, regulated fund and provincial agency, including ATB Financial, Alberta Health Services and public post-secondary education institutions.

The audit, and the auditor's report, adds credibility to the financial statements by telling Albertans whether the financial statements are reasonable. This auditing does not mean that the auditor general examines every transaction or guarantees that the financial statements are error-free. Millions of transactions are summarized into the province's financial statements. Audits, therefore, necessarily focus on areas of risk and on the places where errors that matter to users' understanding of the financial statements as a whole are likely to occur.

The auditor general issued 149 unqualified auditor's reports on financial statements in 2015 (2014–152). He also issued 19 unqualified auditor's reports on specified financial information for certain organizations (2014–17). No qualified auditor's reports were issued for either year.

Outstanding recommendations summary (page 17)

There is continued momentum that has reduced the number of outstanding recommendations from 278 in 2010 to 160 today.

With each published report, we add to the total number of recommendations to implement, but at the same time we are seeing an increase in the number of implemented recommendations. Since October 2014 we have made 35 new recommendations and reported that 71 have been implemented. There are also fewer recommendations older than three years—reduced from 51 in 2014 to 38 in this report. We give credit to those within government organizations who have made concerted efforts to implement our recommendations and to the Standing Committee on Public Accounts for holding the government accountable for implementing our recommendations.

October 2015 Recommendations

We conducted our audits in accordance with the *Auditor General Act* and the standards for assurance engagements as set out in the CPA Canada Handbook—Assurance.

This report contains 13 new and four repeated recommendations to government. The repeated recommendations have been made because we do not believe there has been sufficient action taken to implement our previous recommendations. We also state that 28 prior recommendations have been implemented.

As part of the audit process, we provide recommendations to government in documents called management letters. We use public reporting to bring recommendations to the attention of Members of the Legislative Assembly. For example, members of the all-party Standing Committee on Public Accounts refer to the recommendations in our public reports during their meetings with representatives of government departments and agencies.

The auditor general is the auditor of every ministry, department, regulated fund and provincial agency. Under the *Government Organization Act*, ministers are responsible for administering departments and provincial legislation. Deputy ministers are delegated responsibility to support the minister in his or her role, and to act as the chief operator of a department. Ministers may also establish any boards, committees or councils they consider necessary to act in an advisory or administrative capacity for any matters under the minister's administration. A minister is responsible for oversight of the work and actions of the department and any provincial agencies under his or her administration. However, we make our recommendations to departments and provincial agencies rather than to the minister directly, given the delegated operational responsibilities and that they are in the best position to respond to and implement our recommendations. With respect to recommendations related to ministerial oversight of a provincial agency, we generally make the recommendation to the department supporting and providing advice to the minister.

We believe all of the recommendations in this report require a formal public response from the government. In instances where a recommendation has been made to a board-governed organization, we expect the organization to implement the recommendation and report back to its respective government ministry as part of proper oversight of the organization. By implementing our recommendations, the government will significantly improve the safety and welfare of Albertans, the security and use of the province's resources, or the oversight and ethics with which government operations are managed.

Reporting the status of recommendations

We follow up on all recommendations. The timing of our follow-up audits depends on the nature of our recommendations. To encourage timely implementation and assist with the planning of our follow-up audits, we require a reasonable implementation timeline on all recommendations accepted by the government or the entities we audit that report to the government. We recognize some recommendations will take longer to fully implement than others, but we encourage full implementation within three years. Typically, we do not report on the progress of an outstanding recommendation until management has had sufficient time to implement the recommendation and we have completed our follow-up audit work.

We repeat a recommendation if we find that the implementation progress has been insufficient.

We report the status of our recommendations as:
- **Implemented**—We explain how the government implemented the recommendation.
- **Repeated**—We explain why we are repeating the recommendation and what the government must still do to implement it.

On occasion, we may make the following comments:
- **Satisfactory progress**—We may state that progress is satisfactory based on the results of a follow-up audit.
- **Progress report**—Although the recommendation is not fully implemented, we provide information when we consider it useful for MLAs to understand management's actions.

SYSTEMS AUDITING—NEW AUDITS

Innovation and Advanced Education—For-profit and Cost Recovery Ventures at Post-secondary Institutions

Page 25

RECOMMENDATION 1: DOCUMENT AND COMMUNICATE EXPECTATIONS AND GUIDELINES

We recommend that the Department of Innovation and Advanced Education:

- document its expectations in terms of desired results and risk management for institutions participating in for-profit and cost recovery ventures
- establish approved guidelines for cost recovery ventures, to support best practices and align with the department's expectations
- update and approve for-profit venture guidelines, to support best practices and align with the department's expectations
- develop a process to communicate the department's expectations and guidelines to all institutions

Implications and risks if recommendation not implemented

Without clearly defining and effectively communicating the department's expectations and guidelines on ventures, boards and management will expose their post-secondary institutions to risk that if not managed properly may result in financial loss, reputational damage and legal exposure.

Page 27

RECOMMENDATION 2: IMPROVE DEPARTMENT'S OVERSIGHT OF INSTITUTION'S RISK ASSESSMENT OF VENTURES

We recommend that the Department of Innovation and Advanced Education improve its oversight processes to ensure that boards of governors oversee management's assessment of the risks associated with for-profit and cost recovery ventures by:

- tailoring board training to examine these ventures
- maintaining relevant documentation of the institution's risk assessment and venture approval requests
- requiring the institution to comply with the department's expectations and guidelines
- requiring the institution to report on venture results on an ongoing basis
- providing effective feedback and ongoing guidance to the boards

Implications and risks if recommendation not implemented

Without effective department oversight of whether a board is overseeing that its institution's management has appropriate policies and controls to mitigate risks on these ventures, there is an increased likelihood of unjustifiable exposure and cost to Albertans.

Innovation and Advanced Education—IT System Implementation at Olds College

Page 32

RECOMMENDATION 3: IMPROVE DETAILED PROJECT PLANNING

We recommend that Olds College develop a detailed project plan and define its criteria for each milestone to implement its enterprise resource planning system.

Implications and risks if recommendation not implemented

The college will not complete all essential project deliverables or tasks on time or to an acceptable standard without a formal approach to project planning. Implementation of the ERP system would be delayed, exceed budget or fail to meet the college's business requirements and expectations. A failed implementation would result in costly post-implementation workarounds or the need to revert to less efficient pre-implementation manual processes.

Page 34

RECOMMENDATION 4: IMPROVE BUSINESS CHANGE PLANNING

We recommend that Olds College:

- define the financial and other reporting capabilities required for implementation
- define automated business controls in the system configuration, and business controls affected by the use of the new system for training and production readiness
- develop and approve post-implementation sustainment plans and support agreements to ensure the college has adequate resources to support the new system

Implications and risks if recommendation not implemented

Without clearly designed plans for business requirements, business controls and post-implementation support, the college risks an operational failure occurring that will impede its ability to provide accurate and timely financial reporting to the college's oversight bodies.

Page 36

RECOMMENDATION 5: IMPROVE OVERSIGHT ON PROJECT RISK MANAGEMENT

We recommend that Olds College define a formal project risk management process to identify, rank and mitigate all project risks.

Implications and risks if recommendation not implemented

Without clear identification and reporting on risks, and what is being done to manage the risks, the board does not have complete information to ensure that the project implementation plan will be executed successfully.

SYSTEMS AUDITING—FOLLOW-UP AUDITS

Environment and Parks—Managing Water Act Partnerships and Regulatory Activities

Page 45

RECOMMENDATION 6: MONITOR WETLAND RESTORATION—REPEATED FROM 2010

We again recommend that the Department of Environment and Parks formalize its wetland restoration relationships and control procedures.

Implications and risks if recommendation not implemented

Without controls such as clear agreements and effective monitoring, the department cannot ensure that agencies complete wetland restoration as required. In the absence of effective monitoring of developers' wetland losses and agencies' restoration work, the government cannot know whether it is meeting its policy goals and outcomes for managing Alberta's water supply.

FINANCIAL STATEMENTS AND PERFORMANCE MEASURES AUDITING

Aboriginal Relations

Page 69

RECOMMENDATION 7: IMPROVE FINANCIAL REPORTING PROCESSES—REPEATED

We again recommend that the Department of Aboriginal Relations improve its financial reporting processes to ensure its estimates are reasonable and properly supported.

Implications and risks if recommendation not implemented

Regardless of the complexity of the estimate to be made, management is at risk of making improper conclusions if processes are not in place to appropriately obtain, understand and analyze the information used to make estimates. Estimates are often material to the decision making of users of the ministry's financial reporting.

Culture and Tourism—Travel Alberta

Page 75

RECOMMENDATION 8: ENHANCE DOCUMENTATION TO SUPPORT SENIOR MANAGEMENT EXPENSES—REPEATED

We again recommend that Travel Alberta consistently document the business reason to support senior management expenses.

Implications and risks if recommendation not implemented

Without appropriate documentation to support senior management expenses, the business reasons for the expenditure could be lost with personnel turnover. A lack of documentation may result in Travel Alberta being unable to justify an expense if questioned.

Education—Department

Page 79

RECOMMENDATION 9: ENFORCE IT CHANGE MANAGEMENT CONTROLS

We recommend that the Department of Education enforce its documented IT change management processes and demonstrate that all changes are appropriately classified, logged and approved.

Implications and risks if recommendation not implemented

If IT change management processes are not properly followed, system outages could occur.

Education—Northland School Division No. 61

Page 86

RECOMMENDATION 10: IMPROVE FINANCIAL REPORTING—REPEATED

We again recommend that the Northland School Division No. 61 improve its financial reporting by:

- regularly reviewing and reconciling general ledger accounts
- preparing year-end financial statements promptly

Implications and risks if recommendation not implemented

Management and the official trustee will not have reliable financial information with which to make decisions.

Environment and Parks

Page 91

RECOMMENDATION 11: IMPROVE FINANCIAL REPORTING PROCESSES

We recommend that the Department of Environment and Parks improve its process for preparing timely and reliable financial statements by:

- improving the quality of documentation and analysis to support financial statement items and disclosures
- preparing reconciliations for key financial statement balances
- scheduling and evidencing management reviews of financial statements, analysis and supporting documentation before finalizing draft financial statements

Implications and risks if recommendation not implemented

Without an effective financial statement reporting process, the department cannot accurately and promptly report its financial results. Weak processes increase the risk that the financial statements will have material misstatements. Ineffective processes contribute to inefficiencies that impair the ability of the department to receive a cost effective audit.

Health—Department

Page 101

RECOMMENDATION 12: ESTABLISH A PROACTIVE CHECK TO ENSURE THAT INDIVIDUALS WITH AN ALBERTA HEALTHCARE NUMBER CONTINUE TO MEET RESIDENCY REQUIREMENTS

We recommend that the Department of Health improve its processes by establishing a proactive check to ensure that individuals who have been issued an Alberta healthcare number continue to meet the residency requirements specified in the *Alberta Health Care Insurance Act* and *Regulation.*

Implications and risks if recommendation not implemented

The department may pay for healthcare for people who do not meet Alberta residency requirements.

Page 102

RECOMMENDATION 13: ENHANCE PROCESSES TO CHECK FOR RECEIPT OF SERVICES FOR WHICH PHYSICIANS BILLED

We recommend that the Department of Health enhance the processes it uses to check whether:

- patients received the medical services for which physicians billed the department
- payments are being made in accordance with the provisions of the *Alberta Health Care Insurance Act*

Implications and risks if recommendation not implemented

The department may pay health service claims for services not provided or for services billed incorrectly.

Health—Alberta Health Services

Page 104

RECOMMENDATION 14: DEVELOP A DETAILED PLAN FOR IMPLEMENTING RISK-BASED DISASTER RECOVERY PROCESSES

We recommend that Alberta Health Services develop and follow a comprehensive plan for implementing risk-based disaster recovery processes, including the necessary IT infrastructure.

Implications and risks if recommendation not implemented

Without a comprehensive plan for implementing its disaster recovery program, AHS cannot know if the steps it is taking will help ensure patient care and maintain their safety if IT infrastructure suddenly becomes unavailable.

Innovation and Advanced Education

Page 124

RECOMMENDATION 15: IMPROVE ENTERPRISE RISK MANAGEMENT

We recommend that the Department of Innovation and Advanced Education implement an integrated enterprise risk management framework to identify and mitigate relevant risks.

Implications and risks if recommendation not implemented

Without an effective enterprise risk management system, the department will not identify and mitigate its risks efficiently and effectively.

Municipal Affairs

Page 144

RECOMMENDATION 16: IMPROVE SYSTEMS FOR UPDATING THE ESTIMATED DISASTER RECOVERY PROGRAM LIABILITY

We recommend that the Department of Municipal Affairs develop and implement an improved method for updating and supporting its estimated disaster recovery program liability.

Implications and risks if recommendation not implemented

Management can expect and accept some uncertainty in estimates for the cost of recovering from a disaster. However, the degree of uncertainty increases unacceptably when the estimate is based on poorly designed systems. Inaccurate estimates affect the financial reports that users rely on for many types of decisions. Decision makers may not have the information they need to make the best decisions.

Treasury Board and Finance

Page 156

RECOMMENDATION 17: IMPROVE COMPLIANCE SYSTEMS FOR UNFILED CORPORATE INCOME TAX RETURNS

We recommend that the Department of Treasury Board and Finance improve its compliance systems to deal with unfiled corporate income tax returns.

Implications and risks if recommendation not implemented

The department will not take appropriate actions to ensure corporations file their returns and pay corporate taxes owing.

Outstanding Recommendations Summary

We include a list of outstanding recommendations for a ministry, and the entities that report to it, at the end of each ministry chapter in this report. The list begins with the first ministry on page 69. We list outstanding recommendations under the entity that is responsible for their implementation.

These recommendations include the following categories:

- **Numbered**—These require a formal public response from the government. When implemented, these recommendations will significantly improve the safety and welfare of Albertans, the security and use of the province's resources, or oversight and ethics processes in government.
- **Unnumbered**—In previous reports some recommendations were unnumbered; although important, these recommendations do not require a formal public response from government.

Each list has two parts, indicating where management has informed us that either:

- the recommendation is still being implemented and not ready for a follow-up audit, or
- the recommendation has been implemented and is ready for a follow-up audit

The payback on the investment of audit dollars in producing a recommendation is the follow-up audit that confirms that substantial change has taken place.

At the date of this report, we have 160 outstanding recommendations—150 numbered and 10 unnumbered. A year ago, the total outstanding was 196, so this result does show progress. It also shows continued momentum that has reduced the total outstanding from 278 in 2010. The government and the Office of the Auditor General must continue to focus on reducing the number of older recommendations.

	Numbered		Unnumbered	Total
	3+ Years	Other		
Ready for follow-up audits	8	20	7	35
Not yet ready for follow-up audits	30	92	3	125
Total	**38**	**112**	**10**	**160**

Since October 2014, we have made 35 new recommendations and reported that 71 have been implemented.

Report	Implemented	New	Total
October 2014			196
March 2015	21	15	190
July 2015	22	7	175
October 2015	28	13	160
	71	**35**	

The reports that contain these recommendations are on our website at www.oag.ab.ca.

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Stand-alone Systems Auditing—New Audits

REPORT OF THE AUDITOR GENERAL OF ALBERTA

October 2015

Innovation and Advanced Education—For-profit and Cost Recovery Ventures at Post-secondary Institutions

SUMMARY

The Department of Innovation and Advanced Education provides funding for post-secondary institutions in Alberta. As part of its mandate to improve Alberta's performance in advanced education, the department made financial sustainability for institutions a priority in its 2015–2020 business plan.[1] The government recently announced a review over the next two years of the funding model for institutions, reinforcing the importance of stable and predictable funding for post-secondary institutions.[2]

Management of institutions are also examining alternative sources to generate additional revenue. One such alternative is revenue from for-profit and cost recovery ventures. Examples of these ventures include land trusts to develop an institution's vacant land holdings for commercial or residential purposes, and retail selling of by-products produced from instructional programs. Some institutions have already entered into these ventures, although they currently represent a small percentage of their consolidated revenues. An increasing number of Alberta's post-secondary institutions are examining these ventures as an opportunity to achieve greater funding stability for their institutions.

With opportunity, however, comes increased risk that must be effectively managed.

For-profit and cost recovery ventures pose unique financial, reputational, legal and operational risks to institutions. They also require management and oversight expertise distinct from that typically required for a publicly funded post-secondary institution.

The board of governors and management of an institution are directly responsible for any venture entered into and for considering the unique risks carefully, given the potential diversity of these ventures. Ineffective risk management could increase the likelihood of both financial loss requiring additional taxpayer money and reputational damage of perceived undesirable ventures. The board and management may also divert attention away from the institution's primary operations and may be inexperienced with complex operating decisions required in these ventures.

The department's board oversight processes are critical in safeguarding Albertans' investment in its post-secondary institutions. The department must ensure the board's oversight of the institution's management includes appropriately balancing the increased risk with the expected benefits of these ventures. As the potential for institutions to apply these ventures increases, the department must ensure its oversight processes effectively manage the overall increased risk to Albertans.

We would expect the department to have documented expectations of its desired results and risk management along with supporting guidelines. These expectations and guidelines would assess the strengths, weaknesses, opportunities and threats with respect to the ventures institutions seek approval to enter. We would also expect the department to oversee that boards and management have the experience necessary to effectively manage the ongoing operational risk of these ventures.

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[1] Alberta Innovation and Advanced Education Business Plan 2015-2020.

[2] 2015 news release - http://www.iae.alberta.ca/ministry/news/2015/tuition-and-fees-frozen.aspx

What we examined

We examined whether the department has documented its expectations and guidelines for post-secondary institutions entering into for-profit and cost recovery ventures. We also examined whether the department has processes to provide effective oversight of boards entering into, and monitoring the success of, these ventures in their institutions.

Overall conclusion

The department does not have adequate processes to oversee the unique risks that post-secondary institutions take on when they generate revenue from for-profit and cost recovery ventures.

As a result, ventures with the intended purpose of reducing an institution's reliance on public funding could, in fact, increase the risk exposure and ultimate cost to Albertans.

What we found

Department expectations and approved guidelines for institutions that seek to participate in for-profit and cost recovery ventures do not exist. Without these expectations and guidelines, the department's oversight processes of boards' monitoring the risk management of these ventures is not effective.

What needs to be done

The department must document its expectations in terms of desired results and risk management, and formalize guidelines to support these expectations for institutions participating in for-profit and cost recovery ventures. The department must develop and follow a process for ongoing communication of these expectations and guidelines to all institutions.

The department must strengthen its processes to assess whether boards have ensured that their institution's management have appropriate policies and controls to mitigate risks regarding for-profit and cost recovery ventures. Effective department oversight must include obtaining, from institutions, complete information about proposed ventures and the results of their subsequent operations.

Why this is important to Albertans

An increasing number of institutions are looking for new revenue sources to reduce their reliance on government funding. Without adequate expectations, guidelines and oversight from the department, ventures designed to reduce institutional reliance on public funds will result in unjustifiable risk exposure or cost to Albertans.

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine if the department has developed and communicated:

- expectations and guidelines related to for-profit and cost recovery ventures
- well-designed systems to oversee the quality of board oversight of the accountability for results of these ventures at the institution

We limited our scope to the department's processes and did not audit the individual post-secondary institutions. We excluded ancillary services, which serve to facilitate student inputs to their institution, such as bookstores, parking, food services, memberships, residence rentals and non-credit courses.

Institutions have traditionally provided these services directly to students and we expect they have well established processes.

We interviewed staff and reviewed documentation to understand the department's expectations, guidelines and oversight processes. We examined business cases and the department's approval processes for the creation of subsidiary corporations that institutions set up for their for-profit ventures.

We conducted our field work in July 2015. We substantially completed our audit on August 20, 2015. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canada Handbook—Assurance.

BACKGROUND

Mandates of publicly funded post-secondary institutions

The post-secondary system provides Albertans with a comprehensive range of learning opportunities from a variety of publicly funded institutions. The *Post-secondary Learning Act* and its regulations recognize distinct types of learning opportunities, through individual institutional mandates. Collectively, institutional mandates define the publicly funded post-secondary system's purpose and range of programming and activities.[3]

The department seeks to improve Alberta's performance in advanced education, in part by working with institutions to plan for the long-term, stable and predictable funding that makes it possible for them to fulfill their legislated mandates.

Funding and revenue sources

The department provides public funds to support post-secondary institutions in Alberta. In June 2015 the government announced it intended to spend the next two years reviewing the funding of institutions. Government will review taxpayer funding through operating and capital grants, as well as user based revenues such as tuition, fees and other revenue sources. The goal is to achieve stable and predictable funding for post-secondary institutions.[4]

The department's 2015–2020 business plan supports financial sustainability for post-secondary institutions by building a system that is more self-sufficient and less reliant on government funding.[5]

Post-secondary institutions traditionally generate revenue from various sources to supplement the amount of public funding received. These revenue sources directly relate to operating activities of the institution or providing educational programming core to their mandate, such as:

- tuition and other student fees
- ancillary services
- sponsored research
- portfolio investments
- donations

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[3] Alberta Innovation and Advanced Education Post-secondary Institutional Mandates http://www.iae.alberta.ca/post-secondary/institutions/public/mandates.aspx

[4] 2015 news release - http://www.iae.alberta.ca/ministry/news/2015/tuition-and-fees-frozen.aspx

[5] Alberta Innovation and Advanced Education Business Plan 2015–2020.

Institutions are increasingly exploring new sources of revenue that are outside an institution's core mandate to supplement funding to deliver more programs or make them more accessible for Albertans. For the purpose of this audit, these revenue sources are:

- for-profit ventures (government business enterprises, government business partnerships)
- cost recovery ventures

For-profit ventures

For-profit ventures are entrepreneurial activities that institutions engage in for the primary purpose of generating a profit. Government business enterprises and government business partnerships require the creation of a subsidiary corporation.[6] Institutions are restricted from using government funding for these ventures. These enterprises and partnerships, although affiliated with their sponsoring institutions, are separate legal entities that can sign contracts in their own name, and can sue and be sued.

An institution which does not create a subsidiary corporation to segregate its for-profit ventures from normal operations risks not complying with legislation and losing its charitable organization status. Alberta's post-secondary institutions have commonly used land trusts as a government business enterprise vehicle to develop vacant land holdings of the institution for commercial or residential purposes. Institutions that have already created land trusts for development include Keyano College, University of Calgary and most recently the University of Alberta. Olds College also has a land trust for commercial development, primarily the trust's joint venture agreement with a hotel chain to build and operate a hotel and convention centre.

Cost recovery ventures

Cost recovery ventures involve the retail sales of goods or services including by-products produced from institutional programs. These revenues help offset the direct costs of the institution; any surplus revenue must also support the institution's mandate. Examples of cost recovery ventures include the following:

- livestock sales from Lakeland College's agricultural program
- meat processed and sold through the NAIT retail meat store
- alcohol produced and sold from Olds College's brewmaster program
- room, suite and conference facility rentals at the University of Calgary's Hotel Alma

Risk management

For-profit and cost recovery ventures currently represent a small percentage of institutions' consolidated revenues. However, these ventures pose increased financial, reputational, legal and operational risks to the institutions and the department, as they may not be typical to the operation of all publicly funded educational institutions. Without an effective risk management plan that includes risk mitigation strategies, realization of these risks is more likely.

The minister appoints board of governor members based on their abilities to oversee the operation of an educational institution. Members may not necessarily have the expertise or experience with for-profit or cost recovery ventures.

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[6] Section 80 of the *Financial Administration Act* indicates an order in council approval is required to incorporate, acquire, dissolve, liquidate, wind up or dispose of a subsidiary corporation.

The institutions have direct responsibility for making the decision to enter into ventures and monitor the venture's ongoing operations to the institution's desired results. The department provides oversight of the institution's board, on behalf of the minister, to ensure the board holds management accountable for ensuring these operations will not interfere with the mandate of the institution or result in unjustifiable risk exposure and cost to Albertans.

FINDINGS AND RECOMMENDATIONS

Documented expectations and guidelines

Background

The department should articulate its expectations and these expectations should support the institution's board in overseeing the institution's results, while also achieving the department's desired results.

Guidelines support those who are trying to meet an expectation. They do this by streamlining particular processes according to a routine or sound practice. Guidelines make the actions of department employees and agencies more efficient and predictable.

Communication is effective when it is clear, concise and easily understood. Effective communication saves time, reduces conflict, strengthens relationships and aids in achieving desired results. The department's processes to communicate expectations and guidelines will result in institutions adopting consistent approaches that align with the department's expectations.

RECOMMENDATION 1: DOCUMENT AND COMMUNICATE EXPECTATIONS AND GUIDELINES

We recommend that the Department of Innovation and Advanced Education:

- document its expectations in terms of desired results and risk management for institutions participating in for-profit and cost recovery ventures
- establish approved guidelines for cost recovery ventures, to support best practices and align with the department's expectations
- update and approve for-profit venture guidelines, to support best practices and align with the department's expectations
- develop a process to communicate the department's expectations and guidelines to all institutions

Criteria: the standards for our audit

The department should have expectations and guidelines that institutions can apply within their mandate when operating for-profit and cost recovery ventures.

Our audit findings

KEY FINDINGS

The department:

- has not documented its expectations relating to for-profit and cost recovery ventures
- does not have guidelines for cost recovery ventures
- has had draft guidelines related to for-profit ventures, since December 2011. The department acknowledges they are not comprehensive.
- informally communicates its expectations to institutions; however, these are not documented

The department has not documented its expectations in terms of desired results and risk management for institutions participating in or considering for-profit and cost recovery ventures. The department has delegated this responsibility entirely to each institution to individually determine the proper course of action.

The department provides the following overall planning and reporting guidelines to institutions:

- Comprehensive Institutional Plan Guidelines (2015–2018)—provide a framework for developing institutional plans that integrate institutional and government goals and priorities
- Annual Report Guidelines (updated June 2015)—identify the information institutions must provide in their annual report and associated submissions to the department

However, these guidelines do not specifically identify, nor are they directly applicable to, for-profit and cost recovery ventures.

The department has not developed guidelines for cost recovery ventures.

The department created Subsidiary Approval Guidelines in February 2009, which they were to update every two years. The department completed these updates in December 2011 and February 2013, but both remain in draft status. Effective June 1, 2015, the department drafted new Approval Request Guidelines to provide a general understanding of the post-secondary legislation and the approval procedures the department will use to make sure institutions comply with legislation. These guidelines are not comprehensive, as they do not incorporate requirements for ongoing monitoring and reporting.

The department informally communicates its expectations to the institutions with respect to for-profit and cost recovery ventures. The department expects each institution to be aware of, understand and abide by applicable legislation and regulations. The department was not able to provide evidence of this informal communication.

Implications and risks if recommendation not implemented

Without clearly defining and effectively communicating the department's expectations and guidelines on ventures, boards and management will expose their post-secondary institutions to risk that, if not managed properly, may result in financial loss, reputational damage and legal exposure.

Department oversight of boards of governors

Background

Every public post-secondary institution in Alberta operates within the oversight of a minister-appointed board of governors. The board is accountable to the minister, through the department, for overseeing that institution management is monitoring operations and assessing how effectively it is achieving accountability for results in fulfilling the institution's mandate.

The department is responsible for overseeing whether the boards are effectively overseeing the operations of Alberta's publicly funded institutions. Increasingly, these operations include for-profit and cost recovery ventures.

RECOMMENDATION 2: IMPROVE DEPARTMENT'S OVERSIGHT OF INSTITUTION'S RISK ASSESSMENT OF VENTURES

We recommend that the Department of Innovation and Advanced Education improve its oversight processes to ensure that boards of governors oversee management's assessment of the risks associated with for-profit and cost recovery ventures by:

- tailoring board training to examine these ventures
- maintaining relevant documentation of the institution's risk assessment and venture approval requests
- requiring the institution to comply with the department's expectations and guidelines
- requiring the institution to report on venture results on an ongoing basis
- providing effective feedback and ongoing guidance to the boards

Criteria: the standards for our audit

The department should have adequate processes to oversee that boards of governors of institutions generating alternative revenues are overseeing those activities within the department's expectations and guidelines. The department's oversight[7] should include:

- being vigilant in ensuring the institution's board is ensuring that management is identifying and mitigating risks from for-profit and cost recovery ventures
- checking to confirm the institution's board has processes and systems working well to mitigate risks
- signaling preferred behaviour through open communication and guidance to the institution's board

Our audit findings

KEY FINDINGS

The department:

- provides training to board audit committees on risk management policies and controls but it does not include for-profit or cost recovery ventures
- was not able to provide documentation for all for-profit ventures and cost recovery ventures we tested
- approved business cases for four ventures without complete supporting documentation
- does not have processes to effectively oversee the institution's results of these ventures
- does not include for-profit and cost recovery ventures in its processes for feedback and guidance to institutions

Training for boards of governors

The department's guidelines for board members include an introduction to board governance at Alberta's public post-secondary institutions. In addition, it provides training manuals for board audit committees. The audit committee training manual includes risk management policies and controls to mitigate risk. However, it does not provide information specific to board oversight of risk management related to for-profit and cost recovery ventures.

Application of guidelines

The department assesses whether an institution's board has an appropriate risk management approach, by reviewing the documents the institution provides when asking for the department's approval to set up a subsidiary corporation.

The department uses its draft Subsidiary Approval Guidelines to review and approve the business case and supporting documents for each request. We requested business cases and other supporting documents for nine for-profit approval requests on which the department concluded. The department was only able to provide us with information for six of nine of these assessments. The department provided documentation for an additional venture after our initial examination was completed.

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[7] *Report of the Auditor General of Alberta—July 2014*, page 25.

We examined the business cases and supporting documents for six approval requests against the department's draft guidelines. The department did not apply the guidelines consistently. Four of the six approval requests did not contain documentation specified in the guidelines. The primary documentation missing was financial information. The two most recent approval requests, both made in fiscal year 2015, met the requirements outlined in the draft guidelines.

The department was unable to provide a list of existing cost recovery ventures at post-secondary institutions. The department must compile this list to ensure it knows and understands the risks monitored by institutions.

Reporting and analyzing achievement of desired results

The department oversees a board's oversight activities at an overall institutional level. The department's oversight is not specific to an institution's for-profit or cost recovery ventures. This oversight includes the department's reviews of:

- comprehensive institutional plans
- annual reports
- information reported by institutions in the department's financial information reporting system

The department reviews take place formally, through regularly scheduled and ad hoc meetings, as well as informally, through conversations, phone calls and email. The department indicated these reviews could help them to indirectly identify items for further investigation related to for-profit or cost recovery ventures. However, these high level reports do not provide details of cost recovery ventures.

Feedback and guidance to boards of governors

The department has no formal process for providing feedback and guidance to an institution's board specific to the institution's for-profit or cost recovery ventures.

The department attends various meetings with the institutional management about capital items and grants. During these meetings the department may ask questions on the status of for-profit ventures. However, this occurs on an ad hoc basis.

The department does not have specific meetings related to cost recovery ventures.

Implications and risks if recommendation not implemented

Without effective department oversight of whether a board is overseeing that its institution's management has appropriate policies and controls to mitigate risks on these ventures, there is an increased likelihood of unjustifiable exposure and cost to Albertans.

Innovation and Advanced Education—IT System Implementation at Olds College

SUMMARY

To govern effectively, the board of governors of each of Alberta's post-secondary institutions need accurate and timely financial information. The management of Olds College has identified that its aging administrative systems are difficult to maintain and cannot keep pace with growing business needs and decision making requirements. Enterprise resource planning systems integrate financial, payroll and student modules into one system for operating efficiency and cost effective data management. The college's board, in 2014, approved a project to replace the college's financial, payroll and student services systems with an integrated ERP system.

The college plans to implement the first ERP system module effective November 1, 2015.

College management must have a clear and comprehensive system implementation plan to ensure the ERP system will work effectively on the system implementation date. Weaknesses in the college's implementation plan increase the potential for implementation failure, higher project costs and the system not providing users with effective functionality when operational.

What we examined

We performed a project early warning assessment[1] of the project implementation controls used by the college to manage the risk of not achieving its project objectives. This includes examining the design of controls for:

- project management implementation planning
- business change management readiness planning
- project oversight

The design of these controls is an early indicator of management's ability to mitigate the risk of a failed implementation.

Overall conclusion

The college's implementation plan has significant weaknesses in the design of its project management, business change management and senior management project oversight controls for the ERP project. College management cannot assure the board of governors of a successful system implementation without the weaknesses being rectified.

The board is unable to provide effective oversight of the project, as it is not regularly receiving complete information on project risks, mitigation plans and whether appropriate actions are being taken. The board's decision to approve the system going live is significantly impacted by the lack of complete information on implementation readiness.

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[1] An early warning assessment is a review of a project's health, in relation to how the project team and management are effectively managing the risks related to achieving stated project objectives and desired outcomes.

What we found

Early warning project assessment results

We summarize the control design weaknesses we identified in the project implementation plan, using the following scorecard. The college will fail to implement the new ERP system with its expected business improvements, within the timeframe it has set, if it does not fix these weaknesses.

We assessed 10 project risk management systems and assigned indicators to highlight the significance of the control design deficiencies we observed.

◆	**Red:** Control is not well designed. Management must make significant improvements immediately.
△	**Yellow:** Project controls require more rigour in design to ensure project managers and management are alert to potential impacts to the project.
●	**Green:** Control is well designed. A reassessment may be required later in the project to ensure it continues to effectively mitigate the risk.

SCORECARD: PROJECT RISK MANAGEMENT SYSTEMS		ASSESSMENT *(control design only)*	KEY PROJECT PROCESS(ES)
SC1	Business readiness and transformation	△	Business change management/ Project oversight
SC2	Scope and objectives	△	Business change management
SC3	Staff engagement	●	Business change management
SC4	Internal/business controls	△	Business change management
SC5	Go/no-go implementation criteria	◆	Project management
SC6	Roles and responsibilities	●	Project management
SC7	Systems development standards	N/A	Project management *(U of A responsibility)*
SC8	Project management standards	◆	Project management
SC9	Sustainment plan	◆	Business change management
SC10	Executive oversight[2] (college)	◆	Project oversight

What needs to be done

College management must take immediate steps to ensure that the project team effectively designs key project implementation controls.

The college project team must improve the design of its project implementation plans so that management can effectively provide oversight of the critical tasks and deliverables needed for successful implementation. A clear project schedule, with defined implementation go/no-go criteria for each project milestone and deliverable, is essential.

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[2] Executive oversight in this context is primarily senior management oversight and reporting to the board.

College management must also ensure that the project team improves the design of business change management controls and information on financial reporting requirements, business financial controls and the college's sustainment plan for business and technical support after implementation.

The board must provide oversight so that management clearly understands project risks that could lead to project failure, and ensure the project team is effectively mitigating those risks. With this information, the board can effectively conclude on whether the college should go live with the new ERP system.

Why this is important to Albertans

A failure to properly implement the new system will impair the college's ability to effectively run its operations. Albertans expect post-secondary institutions to have strong financial systems to monitor and report on their operations on a timely basis. These systems should also provide college management with the necessary information to make decisions on how to provide education cost effectively to students.

AUDIT OBJECTIVE AND SCOPE

Our objective was to evaluate the design of the college's project controls to mitigate the risks of its ERP implementation plan.

We did not test whether these controls were working effectively. A weakness in control design provides a strong indication of whether the college will effectively manage its project implementation risks. This audit approach allows us to provide prompt advice to college management and the board on control design weaknesses, to help them effectively manage the risk of a failed implementation.

The Department of Innovation and Advanced Education's Campus Alberta Unified Services[3] initiative is providing Olds College with its new ERP system. CAUS provides smaller post-secondary institutions with access to a common enterprise resource planning[4] system for its administrative and student information systems. The department utilized the expertise and ERP systems of the University of Alberta to develop and configure the system. The college will operate within the U of A's ERP system as a separate business unit, with a clear segregation and restriction of access to its data. Our audit did not include assessing the department's CAUS initiative or the development of the ERP system at the U of A.

We conducted our field work from May 4, 2015 to July 17, 2015. We substantially completed our audit on August 24, 2015. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canada Handbook—Assurance.

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[3] Campus Alberta Unified Services is using the University of Alberta to develop and host an ERP system for smaller colleges in the sector.

[4] Enterprise resource planning systems integrate financial, payroll and student services modules into one system for operating efficiency and cost effective data management.

BACKGROUND

Olds College is a post-secondary institution that offers courses to 1,500 to 2,000 students annually, and is the largest agricultural college in Alberta. The college depends heavily on computer technology to deliver its learning programs and supporting administrative systems.

The college plans to implement the finance module of the ERP system effective November 1, 2015. The other modules (HR, payroll and student services) will follow later in 2016–2017.

College management overseeing the implementation of the ERP system consists primarily of the chief information officer, VP of student and support services, and the chief financial officer. The college's project team consists of staff members from various departments in the college, including the controller.

College management is responsible for getting the college ready to implement the ERP system. This includes project planning, staff training, communicating with stakeholders, and making the business process and control changes needed to use the new system. A CAUS project team from the U of A has assisted the college's project team with some implementation planning activities.

The college's board has approved $1.4 million to provide the necessary resources for management to implement the ERP system.

FINDINGS AND RECOMMENDATIONS

Project management risk

Background

Project management is the discipline for project managers to plan, organize, manage, lead and control project resources to achieve specific goals and outcomes. A project management methodology is a collection of activities encompassing the best practice standards, such as PMBOK[5] and COBIT5[6] that establish required project controls to help a project team achieve desired results and expectations.

RECOMMENDATION 3: IMPROVE DETAILED PROJECT PLANNING

We recommend that Olds College develop a detailed project plan and define its criteria for each milestone to implement its enterprise resource planning system.

Criteria: the standards for our audit

College management should have:

- clarity on whether the project team has properly planned every activity required for the project lifecycle through to implementation, showing milestones, dependencies and pre-requisites
- a well-defined and organized/hierarchical work breakdown structure (WBS)[7] showing relationships and dependencies between tasks, deliverables and milestones

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[5] PMBOK is an industry standard on project management published by the Project Management Institute (PMI).

[6] COBIT5—Control Objectives for Business and Information Technology V5.0, published by the Information Systems Audit and Control Association.

[7] A WBS is a project management tool used to provide a detailed breakdown of project tasks for input into a project schedule.

- defined and approved implementation criteria[8] to ensure that:
  - the project team achieves key project milestones
  - the project team completes key project deliverables
  - the project team ensures new business processes and operational procedures are thoroughly tested and signed off before the system is implemented
  - appropriate go/no-go implementation decisions are made
- performance measurements in place to demonstrate that the project is on track and achieving objectives within budget

See Appendix: Detailed Audit Criteria for the detailed project management criteria applied.

Our audit findings

KEY FINDINGS

- The project team has not completed a detailed project implementation plan.
- Criteria for go/no-go decisions at project milestones and at go-live are not finalized.
- Project roles have been properly defined.

Detailed project plan is not defined (see Scorecard—SC8: Project management standards)

The college's project team has only prepared a high level project plan. The plan does not align with the expected project deliverables and does not identify sufficient details on project activities, timelines, dependencies and milestones.

The project team began drafting a detailed project Gantt[9] chart, with more detailed project tasks, after our initial audit inquiries. The project team's delay in formalizing a detailed project implementation plan until just prior to the go live date significantly increases the college's risk of missed tasks that are critical for successful ERP system implementation.

The project team's work breakdown structure is an unstructured list of project tasks. The structure should be arranged in sequential or chronological order, to reflect the hierarchical arrangement of project deliverables, tasks and criteria for the project to move to the next phase or get ready for implementation.

The college project team has not sufficiently recorded information on the completion of the implementation plans to be able to provide current and accurate project reporting to management and the board.

Go/no-go acceptance criteria not defined (see Scorecard—SC5: Go/no-go implementation criteria)

The college project team has not identified its criteria for:

- deciding when it is appropriate to move to the next project stage or major activity
- management's sign-off of deliverables or testing throughout the project

The project team's production readiness assessment was in template form at the time of our audit. If not completed, the project team will likely miss important activities and deliverables for a successful system implementation.

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[8] These criteria are significant items that must be done before deciding to go ahead with moving to the next phase in a project or implementing a new system. They are sometimes called gating criteria.

[9] A Gantt chart is a project management tool used to define a schedule of project activities, deliverables and resources on a timeline.

Project roles are defined (see Scorecard—SC6: Roles and responsibilities)

Management has clearly defined project roles for individuals for the implementation. Key project team members from the institution have been assigned as a dedicated project team. The project team is using a RACI[10] chart to identify all key project participants.

Implications and risks if recommendation not implemented

The college will not complete all essential project deliverables or tasks on time or to an acceptable standard without a formal approach to project planning. Implementation of the ERP system would be delayed, exceed budget or fail to meet the college's business requirements and expectations. A failed implementation would result in costly post-implementation workarounds or the need to revert to less efficient pre-implementation manual processes.

Business change management risk

Background

Business change management planning involves management readying its business operations for a smooth transition to the new system. Planning includes identifying new processes, policies and business controls. Management must ensure that business needs are adequately defined and the impacts of change to business strategy, people and organizational structure are well understood and adequately planned.

RECOMMENDATION 4: IMPROVE BUSINESS CHANGE PLANNING

We recommend that Olds College:

- define the financial and other reporting capabilities required for implementation
- define automated business controls in the system configuration, and business controls affected by the use of the new system for training and production readiness
- develop and approve post-implementation sustainment plans and support agreements to ensure the college has adequate resources to support the new system

Criteria: the standards for our audit

Management should ensure, for all financial business processes, that current and new business controls are documented and available for reference in support of business operations.

College management should ensure the project team:

- defines its business reporting needs and capability, before implementation
- defines its internal financial business controls affected by the new system before implementation
- develops formalized post-implementation sustainment plans to ensure that adequate IT and business support is available for the new finance operations
- completes negotiating and defining its software and hosting agreements with the U of A, before implementation

See appendix for the detailed business change management criteria applied.

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[10] RACI (responsible, accountable, supportive, consulted and/or informed) is a project management tool used to clarify what a project team member's or business stakeholder's roles and expectations are for a project.

Our audit findings

KEY FINDINGS

Staff and management are engaged on the project, but the project team has not:

- defined and approved reporting requirements for the new financial system
- completed required reporting software changes to meet college needs
- defined business controls for the new financial system and operations
- formalized a sustainment plan for post-implementation business and technical support
- defined criteria to measure the quality of services provided by the U of A

Finance reporting requirements are not defined (see Scorecard—SC1: Business readiness and transformation and SC2: Scope and objectives)

The new system will affect all financial business processes throughout the college. The project team does not yet have a comprehensive understanding of all of the reports the system can or will be providing.

The project team has not finalized identifying the financial reporting requirements and capabilities of the new system. Identification includes reporting required for processes such as procurement and expense claim processing. Required software and configuration changes to meet these needs are also outstanding. Basic financial reporting such as trial balance reports are not yet available.

Business controls are not defined (see Scorecard—SC4: Internal/Business controls)

The project team has not documented existing business controls or control changes expected from implementing the new system. The project team participated in workshops to identify and document gaps in how the new software works and how the institution's operations would have to change. Impacts to the financial control environment were not defined during the workshop and remain outstanding.

Plans to sustain the relationship with U of A are not defined (see Scorecard—SC9: Sustainment plan)

The project team has not yet defined plans to sustain the project's IT and business support arrangements with the U of A, including its strategy, processes and required resources. The college risks missing essential support arrangements and services if it delays defining the legal and operational agreements for this ongoing relationship.

Management should ensure that implementation planning extends beyond turning the system on. Management should ensure the college can effectively support and pay for new system tools, and business processes and operations after implementation. The project team must collaborate with the U of A to identify exactly what the college expects and needs, and what the U of A can or will provide. Agreements with the U of A should have been defined at the start of the project to communicate desired expectations and outcomes of service delivery during and after implementation.

Business staff are involved and kept informed of project progress (see Scorecard—SC3: Staff engagement)

Finance staff were involved in data cleansing for conversion activities, business fit gap assessments and acceptance testing. We examined a staff communication strategy/plan used to keep management and staff informed, and staff surveys used to monitor concerns and seek input from staff directly affected by the planned implementation.

Implications and risks if recommendation not implemented

Without clearly designed plans for business requirements, business controls and post-implementation support, the college risks an operational failure occurring that will impede its ability to provide accurate and timely financial reporting to the college's oversight bodies.

Project oversight risk

Background

Effective project oversight[11] involves senior management participation on the project's steering committee, and the board. Management oversight processes are essential for a project to remain on track to meet the needs of the institution. As well, it is necessary to ensure accountability for results and demonstrate commitment from management and the board. Oversight includes the monitoring of project decisions and risks to ensure that adequate effort and attention is given to problems before they cause the project to fail.

RECOMMENDATION 5: IMPROVE OVERSIGHT ON PROJECT RISK MANAGEMENT

We recommend that Olds College define a formal project risk management process to identify, rank and mitigate all project risks.

Criteria: the standards for our audit

Management should ensure that formal processes are in place to identify and mitigate all project risks using a common practice. Management must ensure that any issues that arise during the project and have an impact on the project's scope, timeline or budget, are clearly understood and effectively mitigated.

College management should:
- define a consistent method of risk identification, with actionable mitigation plans
- regularly report to the board on the status of its risk registry and mitigation plans

Our audit findings

KEY FINDINGS

- The project risk registry is incomplete and mitigation plans are not clearly defined.
- The board and management are not aware of all project risks or what is being done by the team to manage those risks.
- The board does not have all the information required to make the decision to go live with the system on the scheduled implementation date.

Risk management is scattered and not reported consistently (see Scorecard—SC10: Executive oversight)

The board is unable to provide effective oversight of the project as it has not regularly received complete information on the project risks, mitigation plans and whether appropriate actions have been taken. There was no reporting to the board which detailed the implementation weaknesses identified in this report.

The project risk registry is incomplete. Risks are defined in multiple documents, and clear mitigation plans are not defined. Defining risks in one central location would help ensure clear and complete mitigation and ownership. The board and management are not aware of all project risks or what is being done to manage those risks by the project team.

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[11] Project oversight requires vigilant monitoring by management on project processes and systems, including accountability for results, to ensure that risks are managed effectively and project objectives are achieved.

The board must ensure that management is using a formal risk management process for the project and that the status of all risks is regularly reported and monitored for appropriate mitigation and follow up. Without strong management oversight, the board does not have all the information necessary to approve proceeding with a system go live decision at the planned implementation date.

Implications and risks if recommendation not implemented

Without clear identification and reporting on risks, and what is being done to manage the risks, the board does not have complete information to ensure that the project implementation plan will be executed successfully.

DETAILED AUDIT CRITERIA

DETAILED AUDIT CRITERIA RISK: MANAGEMENT SHOULD HAVE…	CONTROL EVIDENCE TO BE REVIEWED (EXAMPLES)	KEY PROJECT PROCESS
1. **Business not ready** Integrated its project management and change management plans to effectively manage business transformation and readiness failure	Project management and change management plans have same standards on rigour and completeness	Business change management/ project oversight
2. **Scope and objectives not clear** Formalized and approved its business objectives and project scope to ensure it is clearly and consistently understood by all stakeholders and executive management	Charter, business requirements, business case, gap analysis on business needs and system capabilities	Business change management
3. **Staff not engaged** Adequately informed Olds College staff involved and affected by the new system of project status Adequately trained staff on the new system tools and business processes Considered: Are Olds College staff and students engaged and ready for change?	Communication plan, formal training, job relocation plans and organizational structure changes	Business change management
4. **Business controls not defined** Designed, documented and fully implemented its automated and manual business controls before implementation	Automated and manual control documentation and business process flow impacts	Business change management
5. **Go/no-go criteria not defined** Adequately assessed the risk of its implementation strategy to ensure that the business can effectively handle the hand-off of the new system and processes without negatively impacting its business operations Defined a project gating strategy and criteria to ensure key milestones are achieved before proceeding. Is the implementation plan too complex (Big-bang[12] vs. phased)?	Implementation roll-out plans, conversion strategy and organizational change plans	Project management

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[12] Big-bang is a high-risk systems implementation strategy involving complex systems such as an ERP, whereby the system is fully installed within the business operations in one instant changeover.

DETAILED AUDIT CRITERIA RISK: MANAGEMENT SHOULD HAVE...	CONTROL EVIDENCE TO BE REVIEWED (EXAMPLES)	KEY PROJECT PROCESS
6. Roles and responsibilities not clear Formalized roles, responsibilities and accountability for results to ensure that the project team and affected business units have clarity as to who will be doing what, and that all involved have the necessary skills to fulfill their responsibilities	Accountability matrix, existing and new roles/responsibilities, required skills and competencies levels	Project Management/ Business change management
7. **Systems development methodology standards not consistent** Formalized its systems development method to ensure it is consistently applied and followed with performance measurements in place	Systems development methodology follows standards and practices	Project management
8. **PM standards not consistent** Formalized its project management method to ensure it is consistently applied and followed, with performance measurements in place to demonstrate that the project is on track and achieving objectives within budget	Project management standards on financial management, timelines, work breakdown structure (WBS) plans and project management office (PMO) standards and oversight processes	Project management
9. **Sustainment plan not defined** Formalized its sustainment support strategy to ensure that adequate resources have been assigned to support the system and the business post-implementation	Post-implementation support—IT for software and infrastructure maintenance, and business for subject matter expert support and additional training	Business change management
10. **Lack of executive oversight** Formalized its corporate oversight processes to ensure that there is visible executive management support and awareness on issues and risks	Oversight structures—decision making, reporting cycle and processes in place to manage issues, risks, communication on changes	Project oversight

AUDITOR
GENERAL
Alberta

Stand-alone Systems Auditing—Follow-up Audits

REPORT OF THE AUDITOR GENERAL OF ALBERTA

October 2015

Environment and Parks—Managing Water Act Partnerships and Regulatory Activities Follow-up

SUMMARY

Alberta's water is a public resource the Government of Alberta must manage for the benefit of present and future generations. Specifically, the 1999 *Water Act*[1] requires the Minister of Environment and Parks to manage the diversion, allocation, use and conservation of Alberta's water. It also allows the minister to manage the water supply by using tools such as water management plans and the water allocation transfer market.[2]

The Act requires Albertans who undertake activities that affect water to obtain authorizations from the Department of Environment and Parks before they begin. The department's responsibility for administering the Act includes making sure that the authorization holders comply with the terms of their authorization.

What we examined

We followed up on four recommendations from our April 2010[3] report in which we reported on how the department managed its regulatory activities and partnerships under the *Water Act*. In 2010 we recommended that the department improve:

- the timeliness with which it processes licences and approvals
- how it monitors users' compliance with the terms of their licences and approvals
- how it controls grants and contracts with watershed planning and advisory councils
- how it monitors agencies that receive funding to restore wetlands

Overall conclusion

The department has improved some of its systems that support the effective management of activities under the *Water Act*. With three of the four recommendations implemented, the department's systems are now more reliable and robust. This is encouraging; however, we found progress in one area to be slow. Five years after our original audit, the department still does not have sufficient monitoring in place to ensure that wetland restoration agencies are in fact restoring the wetland as required.

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[1] *Water Act*, S.A. 2000.

[2] A water allocation transfer occurs when a water licence holder transfers all or a portion of their water licence to another party, which often involves a financial transaction. Generally, a transferred water allocation maintains the same seniority and terms and conditions of diversion as stated in the original water licence. Because the water right is bought and sold between willing buyers and sellers, the term 'water market' is often used.

[3] *Report of the Auditor General of Alberta—April 2010*, nos. 4–7, pages 65–75.

What we found

The most significant improvements we identified include the department:

- reducing its backlog of *Water Act* applications and implementing changes to cut processing times
- updating its approach to monitoring licence and approval holders' compliance with the terms of their authorizations, and developing performance indicators to measure the effectiveness of its compliance assurance program
- improving its controls for watershed planning and advisory council grants and contracts, to ensure the agencies use the funding for the intended purposes

Our follow-up examination of the department's systems to manage the restoration of Alberta's wetlands identified a number of weaknesses. Overall, the department lacks effective monitoring to ensure that restoration agencies are meeting their responsibilities. The department does not have signed agreements with all agencies that restore wetlands and does not have sufficient evidence that the agencies are restoring the wetlands as required.

Why this is important to Albertans

In the absence of effective monitoring of wetland losses and restoration, the government cannot know whether it is managing Alberta's wetlands to sustain the benefits they provide to the environment, society and economy. Efficient and effective application processing and monitoring of approval and licence holder activities, and well managed partnerships will improve the management of Alberta's water supply.

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine if the department has implemented the four recommendations from our April 2010 report.[4]

We conducted our field work from December 2014 to June 2015 and substantially completed our audit on June 19, 2015. We conducted our audit in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canada Handbook—Assurance.

FINDINGS AND RECOMMENDATIONS

Wetland restoration—repeated

Background

When planned development activities might disturb or reduce wetland areas, the department requires developers to compensate for these effects by restoring previously drained or altered, naturally occurring wetlands.[5] The department's 1993 interim policy and 2007 restoration guide governed wetland restoration until June 2015, when Alberta's new wetland policy took effect.[6,7]

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[4] *Report of the Auditor General of Alberta—April 2010*, nos. 4–7, pages 65–75.

[5] Wetlands are low-lying areas of land covered by areas of water long enough to support aquatic plants and wildlife for part of their life cycle. They store and slowly release water and reduce the damaging effects of flooding. They also purify run-off and help keep lakes and rivers clean. Approximately 20 per cent of Alberta's surface area is covered by wetlands.

[6] Alberta Wetland Policy, September 2013.
http://aep.alberta.ca/water/programs-and-services/wetlands/documents/AlbertaWetlandPolicy-Sep2013.pdf

[7] Alberta Wetland Policy was released in September 2013 and took effect in June 2015.

Under both policies, the government's preferred response is to make sure developers avoid or minimize their effects on wetlands. When these approaches are not feasible, the department requires the developer to provide funding to restore wetlands. The 2015 policy allows replacement to include restorative work (such as restoration or enhancement of existing wetland, or construction of another wetland) and non-restorative measures (such as wetland research and education).

Wetland restoration agencies restore wetlands in Alberta. The agencies are also responsible for collecting the funds from approval holders, maintaining restored wetlands, keeping records of their restoration activities and regularly reporting on the results of their activities to the department.

Three wetland restoration agencies operate in Alberta:

- Ducks Unlimited Canada (since 2005)
- City of Calgary (since 2007)
- County of Vermilion River (since 2013)

In our 2010 audit we found that the department did not have a formal agreement with Ducks Unlimited Canada, which had been the only agency responsible for wetland restoration in Alberta for some time. Also, the department did not monitor whether DUC appropriately used the funds they collected from approval holders. DUC's annual reports to the department indicated that the agency collected $24 million from approval holders between 2005 and 2014, and spent $18.5 million on wetland restoration.

In 2010 we also found that the City of Calgary acted as a restoration agency under its own wetland policy and guidelines, which did not meet the standards in Alberta's policy. The department could not provide support for why it accepted the lower standards.

RECOMMENDATION 6: MONITOR WETLAND RESTORATION—REPEATED FROM 2010

We again recommend that the Department of Environment and Parks formalize its wetland restoration relationships and control procedures.

Criteria: the standards for our audit

The department should ensure its partnerships to restore Alberta's wetlands are efficient and effective. There should be clear, enforceable agreements between parties. The department should periodically monitor its partners' progress, through prompt year-end reporting, for example.

Our audit findings

KEY FINDINGS

- The department signed agreements with two of the three wetland restoration agencies. It has no agreement with the City of Calgary.
- Between 2007 and 2014, the City of Calgary collected $25 million from approval holders but has not done any wetland restoration.
- The department does not require agencies to report all the information it needs to assess if wetlands are properly restored.
- The department still lacks effective monitoring to ensure wetland restoration agencies are meeting their responsibilities.

New wetland policy planned to be fully implemented by 2016

The department has been redesigning its strategies and tools for wetland conservation since 2010. In 2013 it released a new wetland policy, which took effect in June 2015. The department expects to fully implement the policy by 2016.

No agreement in place with one of the restoration agencies

The department's agreements with Ducks Unlimited Canada (signed in 2014) and the County of Vermilion River (signed in 2013) will expire in March 2018. It still does not have an agreement with the City of Calgary.

The two signed agreements require annual reporting to the department on restoration projects the agencies initiated but do not require reports on key aspects of wetland restoration, such as wetland area disturbed or lost and area restored. The agreement with DUC does not require the agency to provide evidence that restored areas are properly functioning wetlands. The agreement with the County of Vermilion River requires this information.

Lack of effective monitoring processes

In 2015 the City of Calgary provided its first annual report to the department. Between 2007 and 2014 the city has collected $25 million from approval holders but has not done any wetland restoration work. The department told us this was because there are few opportunities for wetland restoration in the municipal area. At the conclusion of our audit the department stated it was finalizing an agreement with the city that will define how it must spend the funds and what areas the city is allowed to claim as wetland restoration.

The department still does not have an effective process to monitor that restoration agencies are meeting their responsibilities. For example, the department's review of the agencies' 2014 annual reports did not detect the following:

- DUC did not provide evidence that the sites it restored are properly functioning wetlands. It did not provide a full accounting of its income and expenses, including income from other sources. The 2007 wetland restoration guide required DUC to report this information annually.[8]
- The County of Vermilion River submitted its first annual report to the department in November 2014, nine months after it was due.

The department does not check the amount the funding agencies receive with the amount of funding the department's records say approval holders must provide. Therefore, the department does not know whether the agencies fully accounted for the funds they collected.

The department did not always retain evidence it had assessed an applicant's compliance with the policy before issuing an approval. For example, the policy requires applicants to:

- meet a minimum wetland replacement ratio
- provide evidence that it is not possible to avoid or minimize the development's effects on wetland
- provide enough funding to compensate for the development's wetland impacts

For one of the two samples we tested the department could not show us how it ensured the applicant met those requirements.

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[8] The 2007 Wetland Restoration Guide governed wetland restoration until June 2015.

The department told us it is developing processes to make sure that wetland restoration meets the department's requirements. These processes will include:

- certification of wetland restoration agencies
- monitoring to make sure that agencies are fulfilling their responsibilities
- a database that integrates the department's approvals and monitoring with the agencies' wetland restoration data

We were unable to evaluate the design or implementation of these processes because they were still being developed when our audit concluded. If well designed and effective, we would expect such processes to provide assurance to the department that agencies restore wetlands as required.

Implications and risks if recommendation not implemented

Without controls such as clear agreements and effective monitoring, the department cannot ensure that agencies complete wetland restoration as required. In the absence of effective monitoring of developers' wetland losses and agencies' restoration work, the government cannot know whether it is meeting its policy goals and outcomes for managing Alberta's water supply.[9]

Assessing compliance with the Water Act—implemented

Background

Regional staff process applications for *Water Act* authorizations.[10] They also monitor the authorized activities, to make sure authorization holders comply with the Act and their approval and licence requirements. The department's monitoring includes proactive[11] and reactive inspections[12] and compliance sweeps.[13]

Our 2010 audit found that the department did not use its information systems to identify when authorization holders did not submit certificates of completion[14] or water use data as required. Often an unrelated renewal, amendment or inspection identified the non-compliance. We expected the department to detect non-compliance through effective and timely use of available data.

Certificate of completion

The department's approvals managers have discretion to decide if an approved structure needs a certificate of completion. They base their decisions on the structure's specific conditions and its potential effect on the environment. Two per cent of approvals the department issued in 2014 and eight per cent of approvals issued in 2013 required a certificate of completion.

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[9] The goal of this policy is to conserve, restore, protect and manage Alberta's wetlands to sustain the benefits they provide to the environment, society and the economy. http://aep.alberta.ca/water/programs-and-services/wetlands/documents/AlbertaWetlandPolicy-Sep2013.pdf

[10] Authorizations include approvals and licences. Any activity, as defined in the *Water Act*, Section 1(1) (b) (including works), that impacts water or a water body requires an approval. Licences permit individuals or organizations to divert water or operate a works to divert water. If the water diversion lasts less than one year, the applicant may qualify for a temporary diversion licence.

[11] Proactive inspections include annual inspections of drinking water facilities. These inspections are to determine if a facility complies with the legislation and its approval and licence conditions.

[12] Reactive inspections are conducted in response to operational issues or non-compliance reported by a facility, public complaint, incident response, emergency situations and referrals from other department's staff or outside agencies.

[13] Compliance sweeps focus on a geographic area or specific industry. These focused efforts give the department an opportunity to work together with local businesses and ensure they understand the environmental laws and their purposes, how to comply with the law and the consequences of non-compliance.

[14] Where a licence application involves a project that is not yet constructed, the department may issue a preliminary certificate. The certificate is a "promise" for a volume of water if the applicant fulfills the certificate conditions. To receive the licence, the applicant must submit the certificate of completion to the department indicating that it has met the specified conditions.

Water use reporting system

The department developed an online Water Use Reporting System in 2006, to support the implementation of Water for Life: Alberta's Strategy for Sustainability.[15] The system lets licence holders submit water use data online so the department can collect data in a centralized and secured database. The data informs the development of water conservation strategies that promote a healthy aquatic environment and better water management in water use sectors, as well as continued economic growth in Alberta.

The department stated that since 2009 it amended over 4,000 *Water Act* licences, accounting for 80 per cent of licensed water use in Alberta. The amended licences include water use reporting conditions requiring licence holders to submit water use data directly to the Water Use Reporting System.

Our audit findings

The department tracks its requirement for certificates of completion in its Environmental Management System and in the approval's paper file. For all five approvals we tested, approval holders submitted the certificates of completion when they were due.

The department has used a risk-based approach to monitor compliance with legislation since 2007. Under this approach, the department uses inspections of drinking water and industrial facilities[16] under the *Environmental Protection and Enhancement Act*[17] to also monitor compliance with *Water Act* licence conditions, including those for mandatory reporting of water use.[18] Our review of the annual inspection plan for the South Saskatchewan region confirmed that this was the planned approach for 2014–2015.

This audit did not examine if the department followed its inspections plans or if the compliance monitoring was effective, because the processes have not changed since our previous audit.

However, in 2014 the department began a review of its approach to compliance monitoring. The review involves assessing the 2007 risk ratings and inspection targets for activities and facility types, to ensure alignment with the department's new Compliance Assurance Management Framework.[19] The 2013 framework articulates the department's philosophy and approach to compliance assurance for all activities the department regulates. The department expects to implement it by 2016. When our audit concluded, the department was updating the 2007 risk assessment and developing performance indicators to measure the effectiveness of its compliance assurance program.

Although the department's implementation of the framework and its supporting processes was still underway when our audit was completed, our view is that the department has taken key steps toward ensuring it delivers an effective, consistent and coordinated compliance assurance program that is based on risk.

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[15] Water for Life Strategy: A Renewal, November 2008. http://environment.gov.ab.ca/info/library/8035.pdf

[16] The *Environmental Protection and Enhancement Act* regulates municipal and industrial facilities. Many of these facilities need both the *Environmental Protection and Enhancement Act* and *Water Act* authorizations to operate.

[17] *Environmental Protection and Enhancement Act (2003)*. http://www.qp.alberta.ca/documents/acts/e12.pdf

[18] The department proactively inspects approximately 600 drinking water facilities and 10 per cent of industrial facilities annually for compliance with the *Environmental Protection and Enhancement Act*. It also performs reactive inspections in response to about 8,500 complaints per year, a significant portion of which are *Water Act* related.

[19] This policy document describes the business of compliance assurance for the department. It sets out goals, core principles and supporting policies, and provides a detailed program guide.

Backlog of Water Act applications—implemented

Background

The department's approvals staff process applications for *Water Act* authorizations and maintain data in paper files and on its computer system. Our 2010 audit found a backlog of over 3,500 open applications in 2009. We also found that the online data was not always accurate and up to date.

There are about 28,000 issued licences under the *Water Act*[20] and 6,500 approvals for activities on surface water and groundwater bodies. The department receives about 3,000 applications annually.

Our audit findings

The department implemented the following changes to improve the efficiency of *Water Act* applications processing:

- standardized processing and approval procedures
- central data entry and periodic checks for data completeness and accuracy
- target processing timelines and weekly monitoring of actual processing against targets

Our testing of 2013 and 2014 applications found that the department followed its processing and approval procedures, computer data agreed to paper files and processing met target timelines.

The department had 5,500 applications still open in 2010.[21] The department's review found that half of these applications were in various stages of processing; many had slower processing times than expected. The other half were open because of missing or incorrect data. The department corrected the processing and data deficiencies and reduced the backlog to 650 applications by 2013. By December 2014, a new backlog[22] of 1,200 applications had accumulated. The department stated that the recent backlog was largely a result of fewer staff available to process incoming applications. The department established the Approvals Program Standing Committee in 2014 to identify strategies and provide direction for developing an effective and integrated provincial approvals program, and an optimal staff mix to deliver the program.

The department stated that most of the 650 applications open since 2010 require complex data such as hydrological assessments and policy or legal decisions. Our testing found that some of these applications were outstanding simply because the department had not updated its records. The department could further reduce the 2010 backlog by reviewing, once again, whether its information systems accurately reflect the status of applications.

We consider our recommendation implemented because the department reduced the previous backlog to a reasonable level. Although a new backlog has begun to accumulate, the department is working to identify further improvements that will help sustain its effort to process applications efficiently.

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[20] This does not include temporary diversion licences, which are valid for one year.

[21] Our 2010 audit found a backlog of 3,500 applications in 2009. The department's own process found 5,500 open applications in 2010, including applications that were open for less than six months.

[22] The department considers backlog applications as those that remain open (in process) for over six months. The department considers applications to be current if they are open for six months or less.

WPAC grants and contracts—implemented

Background

Watershed Planning and Advisory Councils are multi-stakeholder organizations established under the Water for Life Strategy.[23] Their mandate includes watershed planning and management, reporting on the state of the watershed and providing advice to stakeholders, including government. There are 11 WPACs in Alberta, one for each of Alberta's major river basins. Since 2003 the department has supported the councils through grants totaling $24 million ($4 million in 2014–2015).

In 2010 we recommended that the department strengthen its control of grants and contracts with WPACs.

Our audit findings

To improve the consistency and efficiency of its monitoring of WPAC compliance with grant agreements, the department assigned responsibility for managing WPACs to one executive director. Previously, regional managers shared this responsibility.

The department's grant agreements with WPACs for 2014–2015 clearly define eligible and non-eligible expenses. Starting in 2014–2015 the department funds WPAC core operations and specific projects through grants, rather than using contracts for project work. It uses the same process to manage both types of agreements. The department expects WPACs to use standard templates for their regular reports to the department. It also uses standard checklists to document its review of reports that WPACs submit.

Our testing confirmed that WPACs used the department's templates for annual and interim reporting on 2014 and 2015 grants, and that the department consistently documented its review of these reports to assess compliance with grant agreements.

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[23] Alberta Water for Life: Alberta's Strategy for Sustainability. 2003. http://environment.gov.ab.ca/info/library/8035.pdf

Health—Alberta Health Services—Managing Healthcare Waste Materials Follow-up

SUMMARY

What we examined

In 2012 we audited Alberta Health Services' systems to manage the handling and disposal of healthcare waste materials. For purposes of this report, the term "healthcare waste" includes biomedical and chemical waste as defined by AHS.[1]

We made four recommendations in our July 2012 report.[2] In 2015 we conducted follow-up work to assess whether these recommendations have been implemented.

Overall Conclusion

Alberta Health Services has implemented all four recommendations.

What we found

AHS has:

- assigned the responsibility for oversight of healthcare waste at all AHS sites to its Linen and Environmental Services (LES) branch/function
- developed standardized waste management policies and procedures, and implemented monitoring and analysis of its compliance at AHS sites that produce large volume of healthcare waste
- developed an invoice verification process and started to implement it across large volume producing sites
- developed a process to assess the risk associated with the management of healthcare waste at contracted sites

Why this is important to Albertans

AHS's direct cost of managing healthcare waste materials is $3 million.[3] This expense is not a significant item in AHS's total annual budget of more than $13.50 billion[4] for 2014–2015. However, there are other significant risk factors:

- Health risk—infection or injury from direct contact with biomedical waste and other hazardous waste by patients, healthcare workers, hospital visitors, cleaning staff, waste collectors, processors, recyclers and the general public
- Environmental risk—healthcare waste materials may contain substances that are infectious, toxic, flammable, explosive, corrosive or otherwise harmful to the environment if not disposed of safely
- Reputational risk—healthcare waste incidents may impact the public's confidence in AHS

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[1] Biomedical waste materials include human anatomical waste (body parts), human blood and body fluids, cytotoxic waste (chemotherapy), microbiological waste (laboratory cultures, vaccines) and used sharps (needles, blades and glass). Chemical waste is waste that contains one or a mixture of chemical compounds and is classified as hazardous or non-hazardous (e.g., solvents, reagents, chemical cleaning solutions, paints, fuels).

[2] *Report of the Auditor General of Alberta—July 2012*, page 14.

[3] Numbers provided by LES.

[4] Alberta Health Services Annual Report 2014-15, Financial Statements, page 132. http://www.albertahealthservices.ca/assets/about/publications/ahs-pub-2014-2015-annual-report.pdf

AUDIT OBJECTIVES AND SCOPE

Our audit objective was to determine if AHS has implemented recommendations from our July 2012 report. In performing the audit we:

- interviewed AHS management and staff
- reviewed relevant documentation on management of healthcare waste
- conducted site visits to six AHS sites and one contracted healthcare provider site in Alberta

We conducted our field work between April and June 2015. We substantially completed our audit work on July 28, 2015. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canada Handbook—Assurance.

FINDINGS

Oversight of healthcare waste materials at sites operated by AHS—implemented

Background

In 2012 we recommended that Alberta Health Services establish systems for overseeing management of healthcare waste materials at all AHS sites that generate these materials.[5]

AHS has a large number of sites throughout the province generating various types and volumes of waste. In our 2012 audit we noted that the Environmental Services branch within AHS had oversight responsibility for the management of healthcare waste materials only at AHS's large facilities. Comprehensive provincial oversight of healthcare waste was not in place.

Our audit findings

AHS has implemented this recommendation by assigning the responsibility for overseeing healthcare waste management at all AHS sites to its Linen and Environmental Services function. LES has developed a process for monitoring the types and volume of healthcare waste generated at sites and within programs that are part of, or are funded by, AHS. LES has identified about 900 such sites, which include hospitals, community health centres and clinics, labs and other healthcare facilities.

Waste handling policies and procedures—implemented

Background

In our 2012 audit we recommended that Alberta Health Services improve the handling and disposal of healthcare waste materials at its sites[6] by:

- standardizing healthcare waste materials handling policies and procedures across sites
- establishing processes to monitor and enforce facility compliance with healthcare waste materials handling policies and procedures, and ensuring chemical waste hazards are promptly remediated
- pursuing more opportunities to reduce, reuse and recycle materials that could enter the healthcare waste stream

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[5] *Report of the Auditor General of Alberta—July 2012*, no. 1, page 15.
[6] *Report of the Auditor General of Alberta—July 2012*, no. 2, page 16.

In 2012 we found that AHS did not have standardized polices or a training program for managing healthcare waste in the province. No formal program of monitoring was in place to assess whether policies and standards were being complied with at the sites. There were also no formal processes in place or guidance being provided regarding segregating reusable/recyclable materials from the general waste stream.

Our audit findings

AHS has implemented this recommendation. Linen and Environmental Services has developed standardized policies and procedures for healthcare waste management and is implementing a compliance monitoring process. LES is also working on developing a provincial waste management framework that would include a recycling strategy.

Standardizing healthcare waste materials handling policies and procedures across sites

AHS developed standardized policies and procedures for healthcare waste management in April 2015.

We visited six AHS sites and one contracted provider site that together generate over 50 per cent of all biomedical waste in the province. We found that the new policy and procedures were deployed at all sites visited, and were incorporated into standard education and training for staff.

Establishing compliance monitoring process

LES developed a process to monitor compliance with policies and procedures for handling healthcare waste materials. It started performing site compliance audits following a formal provincial audit schedule. The audit results are reported to site management and centrally to LES. We noted that LES analyzed audit results available to date and has taken appropriate action on identified deficiencies.

Although the implementation of the new compliance monitoring process is still underway, AHS has a clear plan, the right resources and has made sufficient progress for us to consider this part of the recommendation implemented.

Pursuing more opportunities to reduce, reuse and recycle materials that could enter the healthcare waste stream

LES is working on a provincial waste management framework that would include a recycling strategy for AHS. In addition, LES is developing a recycling toolkit that will be available for all AHS and non-AHS sites. The toolkit will provide staff with information, tools (forms, checklists, etc.) and process information on setting up recycling initiatives at their facility, department or unit. We were informed by LES that this toolkit is in the final stages of completion and should be available to AHS staff in August 2015.

Contract management for disposal of healthcare waste at AHS sites—implemented

Background

In our 2012 report we recommended that AHS take steps to improve its contract management processes for healthcare waste[7] by:

- requiring sites to verify that services have been received before approving vendor invoices for payment
- developing risk-focused systems to monitor healthcare waste management for the purposes of controlling volumes and costs

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[7] *Report of the Auditor General of Alberta—July 2012*, no. 3, page 19.

In 2012 we noted that sites were not consistently monitoring the amount of waste they sent for disposal. With limited exceptions, there was no process to verify the volume of waste invoiced by the vendor before sites approved payment. In addition, waste volumes were not tracked by the sites in order to evaluate the annual volumes of healthcare waste produced, the cost of disposal, and to analyze individual sites for any outliers or discrepancies.

Our audit findings

AHS has implemented this recommendation. It has developed processes to verify invoices received from vendors for the disposal of biomedical waste. AHS has also started to implement this process across large volume producing sites. It is currently implementing the invoice verification process at all its remaining sites, and performs analysis on relative cost and volume across the sites. Although the implementation of the new invoice verification process is still underway, AHS has made sufficient progress for us to consider this recommendation implemented.

The new process covers two main types of sites, based on waste volume:

Large volume producing sites

Large hospitals are required to record the weight and the number of boxes containing healthcare waste before waste is picked up by the contactors for further processing and disposal (AHS requires all biomedical waste to be incinerated). Site management are required to subsequently verify that contractor invoices match the site's record before approving payment.

Small volume producing sites

Smaller hospitals, community clinics and health centres must follow the same process, but will not be required to record the weight of their healthcare waste. LES has a process to review weight reported on contractor invoices across all sites and then analyze the data for abnormalities.

During our site visits to six AHS hospitals, we noted that four had started to follow the new process. These four sites alone generate approximately 45 per cent[8] of the total volume of biomedical waste in Alberta. The other two hospitals we visited are in the processes of implementing the new process. In addition, LES is working with the smaller AHS sites to implement the new verification process.

LES has developed a process to track waste volumes. It plans to begin variance (or trend) analysis on its data after it completes the implementation of the new invoice verification processes.

Healthcare waste at contracted health service providers—implemented

Background

In our 2012 report we recommended that AHS assess its risk related to healthcare waste produced by contracted health service providers, and ensure contract provisions manage that risk.[9]

We noted that AHS did not have any systems in place to determine whether and how its contracted service providers were managing risk associated with healthcare waste.

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[8] According to data provided by AHS for 2014–2015.

[9] *Report of the Auditor General of Alberta—July 2012*, no. 4, page 21.

Our audit findings

AHS has implemented this recommendation. Linen and Environmental Services assessed the healthcare waste management policies and procedures used by contracted healthcare providers and found them to be comparable with AHS's own requirements.

LES established a Waste Management Steering Committee, which includes representatives from the operational and program areas of AHS, its subsidiaries, partners and contracted healthcare service providers. The committee meets monthly. It provides an important mechanism for information sharing and the alignment of healthcare waste management practices. Through this committee, LES, its partners and subsidiaries have established a joint semi-annual inspection schedule and plan to share inspection results across the participating organizations.

Innovation and Advanced Education— IT Governance, Strategic Planning and Project Management at Athabasca University Follow-up

SUMMARY

In 2010[1] we reported the results of our audit of Athabasca University's information technology governance, strategic planning and project management systems that support business and technology objectives. We recommended that the university:

- improve governance of information technology
- improve IT portfolio and project management processes
- formalize IT project performance monitoring and reporting
- resolve inefficiencies in financial, human resources and payroll systems

Our follow-up audit confirmed the university implemented these four recommendations.

Overall conclusion

The university has effective IT governance policies, processes, standards and project management systems. Management is able to demonstrate that it is implementing its IT strategic plans cost effectively, and that they are achieving expected results and benefits.

What we found

The university has implemented our recommendations by:

- developing and implementing an IT governance framework that outlines the oversight processes for IT strategic planning and project implementation, and an integrated IT delivery plan that sets out its planned IT initiatives and projects
- strengthening portfolio and project management standards and ensuring all IT projects consistently follow the standards
- completing plans to implement the financial and HR/payroll modules of its new integrated administration system, for improved efficiencies

These changes improved the university's processes and systems to achieve its business and technology objectives. The university now has a corporate view of strategic IT priorities, and the necessary tools and techniques to manage its resources appropriately.

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[1] *Report of the Auditor General of Alberta—October 2010*, pages 19-28.

Why this is important to Albertans

Athabasca University depends on technology to deliver its student programs and services. IT projects require the university's governance and project management processes to provide clear oversight and accountability for results. Without clear and efficient governance and project management processes, IT projects can overwhelm the university's resources and may not meet its needs, or be delivered cost effectively and on time.

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine if the university implemented our four October 2010 recommendations. To perform the audit, we:

- interviewed management and staff to learn what actions they took in response to the recommendations
- examined the university's systems, processes and policies for IT governance, strategic planning and project management
- tested whether policies and processes are clearly documented and communicated to relevant staff, roles and responsibilities are clearly defined, and information technology systems are efficient and effective

We conducted our field work from June 10, 2015 to August 5, 2015. We substantially completed our audit on August 17, 2015. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canada Handbook—Assurance.

BACKGROUND

The university offers over 850 courses in more than 55 undergraduate and graduate programs in arts, science and professional disciplines. It serves over 40,000 students from across Canada and around the world. The university relies on a large number of IT applications and systems to provide programs and services to students and employees. It also uses several key administration systems for the operations of the university. Its heavy reliance on IT to deliver programs and services to students underscores how critical effective IT governance[2] and project management[3] is for the university. Organizations prepare business plans with better clarity on resource requirements when effective IT governance, strategic planning and project management practices are applied.

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[2] Governance includes the processes and responsibilities for management and oversight of all projects. These processes include strategic planning, prioritization and approval of IT projects.

[3] Project management is the application of knowledge, skills and techniques to meet a project's objectives and requirements. It includes project initiation, planning and execution.

FINDINGS AND RECOMMENDATIONS

Improve governance of information technology—implemented

Background

In 2010[4] we recommended that Athabasca University continue to improve its IT governance by:

- developing an integrated IT delivery plan that aligns with the university's IT strategic plan
- requiring business cases for IT projects that include key project information such as objectives, cost benefit assessments, risks and resource requirements to support the steering committees' and executive committee's decisions and ongoing project oversight
- improving the coordination and communication between the IT steering committees in reviewing, approving and overseeing projects

We found the university did not have an integrated IT delivery plan, and its IT strategic plan was not current. There were conflicting plans and missing information in project libraries and IT governance files to determine the status of current projects. The university's IT steering committees and executive committee lacked key and relevant planning information to make informed decisions.

Our audit findings

In 2015 the university implemented an integrated IT delivery plan and project roadmap that sets out its planned IT initiatives and projects. The delivery plan includes required budget and resources, the critical sequence in which to undertake projects, and the interdependencies of projects to ensure projects are adequately resourced and that the right skills are available. The IT strategic plan identifies how the university will use technology to achieve its business objectives and goals.

The university implemented a new IT governance framework, called the information and communication technology investment governance framework, in 2014 to support IT strategic planning and project implementation. The governance framework outlines processes such as project proposal submission and evaluation of required costs (both capital and ongoing), and the university's capacity and expertise required to deliver new projects. The university established a new ICT investment governance committee to provide oversight of all IT projects. This committee is chaired by the chief information officer with other business leaders represented.

The new governance framework defines the process for project implementation, including the preparation of business cases, project lifecycle approach and project management processes. Consistent and regular project status reporting by project teams to the ICT investment governance committee is required for progress, dependencies and issues for all IT projects. The university's executive group and audit committee receive status reports on a regular basis. The new governance committee provides oversight to the project steering committees, ensuring the sharing and regular reporting of project status and decisions.

We tested the oversight and planning processes for the administrative system renewal project and the email replacement project—they were adequate.

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[4] *Report of the Auditor General of Alberta—October 2010*, page 21.

Improve portfolio and project management processes—implemented

Background

In 2010[5] we recommended that Athabasca university continue to improve its portfolio management and project management processes for IT projects by:

- setting project management and architectural standards, processes and methodologies, and providing related training to project managers
- clarifying and communicating the mandate and authority of the project management office
- monitoring and enforcing project managers' adherence to these standards, processes and methodologies
- tracking and managing project dependencies on scope, risks, budgets and resource requirements

The university developed initial project management processes, tools and templates but lacked detailed standards. Individual project managers applied discretion on many aspects of project management. The university did not provide sufficient training on its processes and tools to project managers—mostly contracted staff—and did not consistently manage projects. The university did not have the standards for software development and infrastructure architecture required to support its new IT projects.

Our audit findings

The university implemented a project management handbook based on the Project Management Body of Knowledge (PMBOK®)[6] framework. Project managers and teams now consistently use the handbook, which includes processes, tools and templates as a standard for project management and systems development. Management has developed architectural standards for its computing infrastructure.

The university's ICT investment governance framework requires that all IT investments be formulated into projects, which are planned for, executed, measured and reported on by its project managers, and delivered using the new project management handbook. Project reporting now includes details on scope, risks, budget and resource needs, and potential conflicts. Management now uses project status reports to keep the IT delivery plans up-to-date.

The project manager handbook also includes processes and standards to support the various systems development approaches. The chief information officer and the director of project management (as part of a project management office role) are responsible for monitoring all IT projects, to ensure project managers follow the new framework and handbook standards as defined in the governance framework.

The university improved its portfolio and project management processes by taking the following steps:

- The new ICT investment governance framework and committee provide the mandate and oversight to ensure there is a consistent project management practice, using guiding principles, rules and procedures.
- The university requires all project managers to be certified Project Management Professionals (PMP).[7] PMPs are well trained on the processes and tools of the PMBOK® framework.

We tested the IT governance framework and found it to operate adequately.

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[5] *Report of the Auditor General of Alberta—October 2010*, page 24.

[6] PMBOK® is an industry standard framework on project management controls published by the Project Management Institute (PMI).

[7] PMP is project management professional certification by the Project Management Institute (PMI).

Formalize IT project performance monitoring and reporting—implemented

Background

In 2010[8] we recommended that Athabasca University formalize and improve its monitoring and oversight of information technology projects by:

- improving its systems to quantify and record internal project costs
- providing relevant and sufficient project status information to the IT steering and executive committees, and summarized project information to the audit committee
- completing post-implementation reviews on projects to verify that expected benefits were met and identify possible improvements to IT governance, strategic planning and project management processes

We found the university tracks external project costs for contractors, purchased software, consulting services and some computing equipment. However, the university did not have the processes, standards or time tracking systems to estimate, or quantify and record time and costs for internal IT, administration and academic staff assigned to IT projects. The university's governance body did not receive reports of the true cost of IT projects. Post-implementation reviews[9] were not performed to assess benefits achieved against objectives.

Our audit findings

In 2015 the university implemented a detailed project financial information process to capture, and accurately track and report project costs to the university's governance bodies. The university appropriately allocates staff salary costs to projects based on time tracked and recorded on staff daily timesheets.

The university formalized its project status reporting processes to include a dashboard and key performance metrics on project schedule, scope, issues and financials. Project teams provide regular reporting to respective steering, ICT investment governance and audit committees and the executive group. We tested a sample of project status reports and found them to be adequate.

The university performed a post-implementation review of its administrative renewal project, financial and HR/payroll modules to assess accomplishments to planned outcomes and objectives/benefits, including lessons learned. We examined the review documents and found them adequate.

Resolve inefficiencies in financial, HR and payroll systems—implemented

Background

In 2010[10] we recommended that Athabasca University complete its plans to resolve inefficiencies in its financial, human resources and payroll systems.

The university's plans to resolve the inefficiencies in its administration systems was incomplete. A business case was prepared and a project was recommended to upgrade its current system. However, this was not prominent in its strategic plans and decisions were not made to move forward. Operational problems caused a duplication of efforts. Data entry occurred within multiple systems due to the lack of integrated systems.

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[8] *Report of the Auditor General of Alberta—October 2010*, page 25.

[9] The post-implementation review is performed as part of project close activities to evaluate if stated objectives and the expected benefits have been achieved. This also includes lessons learned to benefit future projects.

[10] *Report of the Auditor General of Alberta—October 2010*, page 27.

Our audit findings

The university implemented phase 1 – finance module and phase 2 – HR and payroll modules of its administrative systems renewal project in 2014–15. Phase 3 – student module is currently in progress and planned for full implementation in 2016.

We examined project post-implementation documents to confirm that planned benefits with data integration and duplicate data entry issues, related to the replaced systems, were resolved with phases 1 and 2.

We will test the student module phase of this project, once it is fully implemented, as part of our annual financial statement audit.

Treasury Board and Finance—Air Transportation Services Program Follow-up

Air Transportation Services Program—changed circumstances

We audited the systems the Department of Treasury Board and Finance used to assess the Air Transportation Services Program in 2014 to ensure the program was meeting its objectives and considering risks, costs and benefits.

We made five recommendations[1] to the department in our August 2014 special duty report related to the ATS program. We recommended that the department:

- evaluate the ATS program and immediately communicate the results publicly
- clarify its aircraft use policies to deal with any partisan and personal use of government aircraft and requirements for cost effectiveness evaluations when requesting to use government aircraft
- develop a common government aircraft use policy with which all users must comply
- require that a cost benefit analysis be performed, documented and approved by the responsible minister or deputy minister requesting service prior to authorizing the use of government aircraft for out-of-province travel
- review its costing model for government aircraft and publicly report on the costs associated with travel on government aircraft

Premier Prentice announced in September 2014 that the Government of Alberta would sell its airplanes and discontinue the ATS program. The department put the aircraft up for sale in December 2014 and the service was discontinued. The government announced that three of the aircraft had been sold for $6.1 million in February 2015.

The department recorded a $4.7 million loss on the disposal of the three aircraft in its 2014–2015 financial statements. The loss was determined by taking the proceeds on the sale of $6.1 million less the carrying value of the aircraft at the time of sale (approximately $10.8 million).

At the time of our report, the department listed the remaining airplane (a 36-passenger De Havilland Dash 8-103) as being for sale.

The department discontinued the ATS program and, therefore, our recommendations are no longer relevant. To replace the services provided by the program, the government now uses a combination of commercial and charter flights. We have not audited the use of commercial or chartered aircraft services.

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[1] *Special Duty Report on the Expenses of the Office of Premier Redford and Alberta's Air Transportation Services Program—August 2014*, nos. 2-6, pages 34, 37, 38 and 40.

AUDITOR
GENERAL
Alberta

Financial Statements and Performance Measures Auditing

REPORT OF THE AUDITOR GENERAL OF ALBERTA

October 2015

Financial Statements and Performance Measures

INTRODUCTION

Financial statements

The Government of Alberta prepares financial statements and makes them public to inform Albertans about the province's financial performance. The Office of the Auditor General, under the *Auditor General Act,* audits the financial statements of the Province of Alberta, as well as every ministry, department, regulated fund and provincial agency.

An audit is the collection and evaluation of evidence about the fairness of financial statements. By obtaining this evidence, the auditor general is able to provide a high level of assurance to Albertans about whether the financial statements prepared by management are fairly presented and free from material misstatements. An audit includes assessing where errors (misstatements) could occur in the financial statements, testing management's internal control over financial information and performing additional audit procedures.

The audit, and the auditor's report, adds credibility to the financial statements by telling Albertans whether the financial statements are reasonable. This auditing does not mean that the auditor general examines every transaction or guarantees that the financial statements are error-free. Millions of transactions are summarized into the province's financial statements. Audits, therefore, necessarily focus on areas of risk and on the places where errors that matter to users' understanding of the financial statements as a whole are likely to occur.

We issued unqualified independent auditor's reports on the financial statements for those entities we audited. We included an Emphasis of Matter paragraph in the auditor's report on the province's consolidated financial statements to emphasize the disclosure of the constructed budget in the province's consolidated financial statements; the audit report was unqualified with respect to that matter. For a list of the entities we audit, please refer to our 2014 Performance Report, located on page 199 of this report.

Performance measures

The Government of Alberta prepares and reports performance measures to provide information that allows Albertans to assess the government's overall performance, including performance relative to goals in specific policy areas.

For ministries and some agencies, we complete review engagement procedures on selected non-financial measures of performance in the entity's annual report. We also audit selected measures in the annual progress report on the government's business plan, titled Measuring Up. We report on the reliability, understandability, comparability and completeness of the selected measures of performance. Our reviews and the audit are not designed to provide assurance on the relevance of the measures to users.

We completed the audit of four of the 18 performance measures included in Measuring Up for the year ended March 31, 2015. We issued an unqualified auditor's report on the measures selected for audit in Measuring Up.

We completed the review of 46 performance measures in annual reports of 19 ministries and one agency. We issued unqualified review reports on the measures we reviewed.

Aboriginal Relations

SUMMARY

DEPARTMENT

Matters from the prior audits

We again recommend that the Department of Aboriginal Relations improve its financial reporting processes—see below

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from prior audits

Estimation processes—repeated

Background

In 2014 we recommended that the department improve its financial reporting processes to ensure estimates are reasonable and reliably supported.[1]

In preparing the ministry's financial reporting, department management must estimate the value of some balances for which complete information is not available at the time. Reasonable estimates require good judgment and strong estimation processes to gather, understand and analyze the best information available. Management must also retrospectively examine these estimates and adjust their value when better information becomes available. The process of reviewing and adjusting estimates should also help management identify ways to make more precise estimates in the future.

Historically, the majority of the department's valuation estimates are simple in nature. The department is responsible for managing the province's recovery efforts on First Nations lands affected by the 2013 Alberta flooding. Department management based its original flood recovery cost estimates in large part on analysis by the departments of Municipal Affairs and Seniors of flood recovery costs elsewhere in the province.

In 2014 we found that the department did not have processes in place to assess the unique and complex nature of estimates such as those related to the 2013 Alberta flooding. The department did not have processes to ensure that management had gathered all information relevant to make a reasonable estimate to account for the 2013 Alberta flooding. The department estimated the total expense for flood recovery on First Nations land to be $193 million, of which $164 million is eligible for federal disaster assistance funding.

We repeat this recommendation because the department's processes are still incomplete to make reasonable and properly supported estimates.

RECOMMENDATION 7: IMPROVE FINANCIAL REPORTING PROCESSES—REPEATED

We again recommend that the Department of Aboriginal Relations improve its financial reporting processes to ensure its estimates are reasonable and properly supported.

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[1] *Report of the Auditor General of Alberta—October 2014*, no. 14, page 109.

Criteria: The standards for our audit

The department should have processes in place to obtain, understand and analyze information management uses to make estimates in its financial reporting.

Our audit findings

KEY FINDINGS

- The department obtained new information during the fiscal year related to expected costs for 2013 flood recovery projects on First Nations land.
- The department did not formally analyze throughout the fiscal year if the new information required changes to the estimation methods and assumptions applied in the original cost estimate.
- The department did not document its analysis and conclusions on required contingencies and costs eligible for federal disaster recovery program assistance, based on up-to-date information.
- Analysis prepared during the financial statement audit by management reasonably supported no material adjustments to the year-end estimate.

In fiscal 2015, the department obtained new data on estimated costs to recover properties on First Nations land damaged in the 2013 flood. Most recovery projects were still in the planning stage during the year. The department executed some recovery projects and made payments on the actual costs incurred. The department is using this new information when entering into agreements with contractors to perform future recovery work. Management concluded based on this information that changes to original cost estimates are not required.

While the department was able to obtain new cost information during the year, it did not prepare documented analysis to assess if the new cost information required changes to the estimation methods and assumptions applied in the original cost estimate. Actual experience either confirms or challenges management's assumptions for the original estimate. As the department relied significantly on specialists when determining the original estimate, careful continuous analysis is required to identify when changes to the methods and assumptions are required and if additional specialist support is required in making new estimates.

The department's original cost estimate included a contingency figure given the measurement uncertainty of the valuation of the estimated costs. As the department obtains new cost information over time, it must refine its conclusion on the amount of the contingency, if any, that is still required. Management could not provide any analysis it has made throughout the year of the required contingency based on new information obtained.

The department's original cost estimate also included anticipated costs eligible for assistance under the Government of Canada Disaster Financial Assistance Arrangements guidelines or directly with Aboriginal Affairs and Northern Development Canada. The department's understanding of what costs will be eligible for federal assistance is critical to communicating the amount of the flood recovery Albertans will fund solely. Management was unable to provide an analysis of how new cost information obtained from the year changes the original estimates of costs eligible for federal assistance, if at all.

Management prepared analysis on overall cost, contingencies and eligible federal assistance when requested during our audit of the department's financial statements. Based on our examination, we identified no material differences in the analysis, considering the measurement uncertainty disclosures made in the department's financial reporting.

The department must continually assess its outstanding flood liabilities and recoveries throughout the year and have the ability to adjust the balances if needed, as new information becomes available. Management's decisions on the 2013 flood recovery projects and estimated expected costs risk being incorrect if they do not consider all the best information available at the time.

The department must have complete processes to:
- gather and verify the information it relies on for updating original estimates
- periodically reassess the reasonability and completeness of its financial reporting estimates and disclosures

Implications and risks if recommendation not implemented

Regardless of the complexity of the estimate to be made, management is at risk of making improper conclusions if processes are not in place to appropriately obtain, understand and analyze the information used to make estimates. Estimates are often material to the decision making of users of the ministry's financial reporting.

OUTSTANDING RECOMMENDATIONS

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve financial reporting processes—October 2015, no. 7, p. 69
(Originally October 2014, no. 14, p. 109)
We again recommend that the Department of Aboriginal Relations improve its financial reporting processes to ensure its estimates are reasonable and properly supported.

Management has identified these recommendations as implemented—to be confirmed with a follow-up audit:

Formalize and communicate interpretation of eligible uses—July 2013, no. 1, p. 23
We recommend that the Department of Aboriginal Relations formalize and communicate its interpretation of eligible uses of funds.

Improve review process—July 2013, no. 2, p. 24
We recommend that the Department of Aboriginal Relations improve its processes to review and approve grant applications by:
- formalizing the additional review processes it developed for complex grant applications
- consistently obtaining sufficient information to support its assessment of grant applications

Monitor for and correct non-compliance—July 2013, no. 3, p. 26
We recommend that the Department of Aboriginal Relations improve monitoring processes by consistently ensuring First Nations comply with reporting requirements and acting to correct non-compliance with the grant agreement.

Agriculture and Forestry

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Agriculture and Forestry in this report.

OUTSTANDING RECOMMENDATIONS

AGRICULTURE AND FORESTRY AND HEALTH

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Food safety: Accountability—October 2013, no. 5, p. 59
(Originally October 2006, no. 12, vol. 1, p. 105; repeated as October 2009, no. 13, p. 114)
We again recommend that the Departments of Health and Agriculture and Forestry improve reporting on food safety in Alberta. [This recommendation is being repeated to Health; Agriculture and Forestry is making satisfactory progress.]

AGRICULTURE AND FORESTRY, HEALTH AND ALBERTA HEALTH SERVICES

The following recommendation is outstanding and not yet ready for a follow-up audit:

Food safety: Eliminating gaps in food safety inspection coverage—October 2009, no. 12, p. 111
(Originally October 2006, vol. 1, p. 102)
We again recommend that Alberta Health Services and the Departments of Health and Agriculture and Forestry, working with federal regulators, eliminate the existing gaps in food safety coverage in Alberta. Gaps include:

- mobile butchers
- consistently administering the Meat Facility Standard
- coordinating inspections in the "non-federally registered" sector

Culture and Tourism

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Culture and Tourism in this report.

TRAVEL ALBERTA

Matters from prior audits

We again recommend that Travel Alberta enhance documentation to support senior management expenses—see below

FINDINGS AND RECOMMENDATIONS

TRAVEL ALBERTA

Senior management expenses—repeated

Matters from prior audits

Background

Travel Alberta is the tourism marketing agency of the Government of Alberta. The nature of its business requires employees to attend various meetings and events in the province and abroad to advance the strategies of the organization. In 2014[1] we recommended that Travel Alberta improve the consistency and rigour of its approval process and enhance the documentation to support senior management expenses.

It is important that Travel Alberta is able to provide the business reasons and support for expenses, particularly if the expense is perceived as unreasonable. If the ability to explain the expense is done at the time of the approval, as opposed to later, credibility will be added to Travel Alberta's response and will provide proof of due consideration at the time of approval. Further, as turnover may occur at the oversight level or within other key positions of the organization, it is important that the nature, extent and background of the expenses be retained.

We tested a number of samples of senior management expenses incurred between July 2014 and June 2015, for compliance with the revised Travel, Meal and Hospitality Expense Policy (effective June 19, 2014) and the Traveler Influencer Policy (effective October 1, 2014). Traveler Influencer expenses include the costs incurred for travel, accommodation, food and/or beverages, and related expenses provided to guests of Travel Alberta as a matter of courtesy or to facilitate Travel Alberta business.

RECOMMENDATION 8: ENHANCE DOCUMENTATION TO SUPPORT SENIOR MANAGEMENT EXPENSES—REPEATED

We again recommend that Travel Alberta consistently document the business reason to support senior management expenses.

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[1] *Report of the Auditor General of Alberta—October 2014*, no. 21, page 187.

Criteria: the standards for our audit

The chief executive officer and the board should be able to demonstrate that expenses are incurred only for business reasons, with proper consideration for economy and efficiency.

Our audit findings

KEY FINDINGS

- The CEO's incurred expenses were not unreasonable, given Travel Alberta's policies and the business reasons supporting the expenses.
- The board approved the CEO's expenses and was aware of the nature and purpose of these expenses.
- Documentation to explain why certain expenses were necessary and appropriate was not always available.

Improvements were noted over the prior year. Particularly, all expenses requiring pre-authorization were approved by the expenditure officers in accordance with Travel Alberta's policies. Appropriate documentation was available to support these expenses. However, in circumstances where the expenses were unique in nature, adequate documentation was not always available to support the expense.

Domestic and international flights

Economy class must be used for domestic flights and travel outside of Canada must be pre-authorized. A travel authority form must be completed prior to flights being booked. We found flight classes were booked in accordance with policy and pre-approval occurred when required.

Accommodation costs

Receipts may be claimed when a claimant is travelling for business or attending a pre-approved conference or business meeting, and overnight accommodation is warranted if the travel is away from the claimant's residence. In March 2015 the chief executive officer and the executive director travelled internationally. The accommodation cost approximately $420 per night per person, for a total of three nights. Through discussions, we determined that this was a partnering initiative that Travel Alberta and the board was aware of and approved the expense in accordance with policy. However, the business reasons for the trip were not appropriately documented. Another claim we reviewed was a five-night accommodation cost in November 2014 that was incurred in one of the Calgary hotels. The reimbursement was approved by the chair of the board of directors with no documentation of business purposes.

Hospitality expenses

Both the Travel, Meal and Hospitality Expense Policy and the Traveler Influencer Policy require hospitality events involving the serving of alcohol of $600 or more be pre-authorized with written approval. The expenses we examined were pre-authorized with written approval. The pre-authorization form used also identified the business reasons, dates, attendees and the estimated costs of these events. One expense we examined was a reimbursement to a board member for the Institute of Chartered Accountants' Lifetime Achievement Award Gala. The $700 reimbursement related to the attendees from Travel Alberta, including the chief executive officer, chair of the board and their spouses. There was no documentation available to support the business reasons for attending this event.

Working session/board meeting meals

The policy requires pre-approval in writing of any working session expenses of $1,500 or more. We did not identify any working sessions that were over $1,500 during the testing period. For working session/board meeting meals tested, we noted that all were approved for reimbursement in accordance with Travel Alberta's policy. We confirmed no alcohol was expensed. Attendees were identified along with the expense claims. However, documentation was not always available to support the necessity and business reasons for the working sessions.

Board oversight

We found that board approval occurred for all expenses in accordance with Travel Alberta's policy. We found that the board did ultimately approve all the chief executive officer's expenses, and was aware of the nature and purpose of these expenses. However, the nature and purpose was not always documented.

Implications and risks if recommendation not implemented

Without appropriate documentation to support senior management expenses, the business reasons for the expenditure could be lost with personnel turnover. A lack of documentation may result in Travel Alberta being unable to justify an expense if questioned.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

There are no outstanding recommendations to the Department of Culture and Tourism.

TRAVEL ALBERTA

The following recommendation is outstanding and not yet ready for a follow-up audit:

Enhance documentation to support senior management expenses—October 2015, no. 8, p. 75 (Originally October 2014, no. 21, p. 187)

We again recommend that Travel Alberta enhance the documentation to support senior management expenses.

Education

SUMMARY

DEPARTMENT

Matters from current audit

There is one new recommendation for the Department of Education from the current audit. The Department of Education should improve its change management controls.

In accordance with Section 19(4) of the *Auditor General Act*, we have compiled a summary of the results of school jurisdictions' audited fiscal 2014 financial statements and management letters—see the following page.

We are the appointed auditor of one of the school jurisdictions (Northland School Division No. 61). For all other school jurisdictions we examined the management letters of their auditors and the auditors' reports on the financial statements.

NORTHLAND SCHOOL DIVISION NO. 61

Matters from prior audits

The division should improve its financial reporting—recommendation repeated, see page 86.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from the current audit

Change IT management controls

Background

Change management control is a systematic approach to managing all changes made to an information technology system. The purpose is to ensure that no unnecessary changes are made, all changes are documented, services are not unnecessarily disrupted and resources are used efficiently.

The Department of Innovation and Advanced Education and the Department of Education share the same IT infrastructure, called the shared services environment, to support their operations. The Department of Innovation and Advanced Education is responsible for supporting the network infrastructure. The Department of Education is responsible for supporting its own business operations.

RECOMMENDATION 9: ENFORCE IT CHANGE MANAGEMENT CONTROLS

We recommend that the Department of Education enforce its documented IT change management processes and demonstrate that all changes are appropriately classified, logged and approved.

Criteria: the standards for our audit

The department should have documented effective IT change management procedures to implement all changes in a structured way. All IT changes should be appropriately classified, logged, approved, documented and subjected to formal change management procedures.

Our audit findings

KEY FINDINGS

- IT change management processes required on an emergency basis are not consistently followed.
- Department staff did not have the documented change management process.

The Department of Innovation and Advanced Education is responsible for developing and distributing the IT processes for the shared services environment. Although the process for managing changes in the shared environment is well documented, the process was not available to all staff at the Department of Education. As a result, change processes required on an emergency basis were not consistently followed by some department staff.

The standard changes the department logged followed proper change management processes. However, not all of the emergency changes followed the documented procedures. We found two emergency changes were not consistent with the documented process. One change did not meet the documented criteria for an emergency change. We could not confirm that the other emergency change met the documented criteria.

Implications and risks if recommendation not implemented

If IT change management processes are not properly followed, system outages could occur.

Summary of results—school jurisdiction audited financial statements and management letters

Summary

We have completed our Section 19(4) summary of results of school jurisdiction audited financial statements and the management letters provided by their auditors for their fiscal year ended August 31, 2014. We have also provided comparative results for the fiscal years ended August 31, 2013[1] and 2012.

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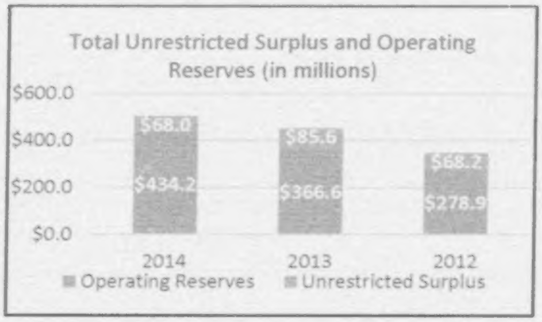
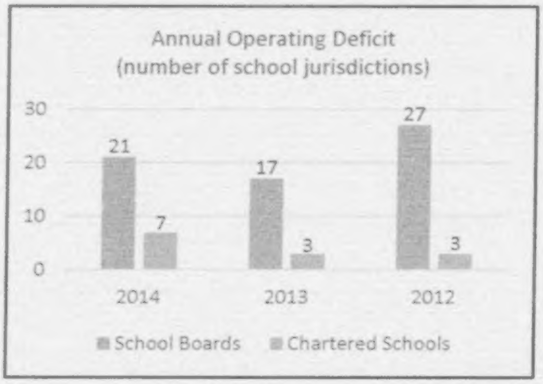
[1] In 2014 certain school jurisdictions restated their fiscal 2013 figures for corrections primarily related to the adoption of Public Sector Accounting Standards. The impact on 2013 consolidated school jurisdiction figures previously reported is unrestricted surplus decreased by $1.1 million, operating reserves decreased by $111,000, investment in tangible capital assets decreased by $1.7 million, capital reserves increased by $111,000 and tangible capital assets increased by $3.9 million. Comparative 2013 figures presented reflect these immaterial adjustments.

Highlights are:

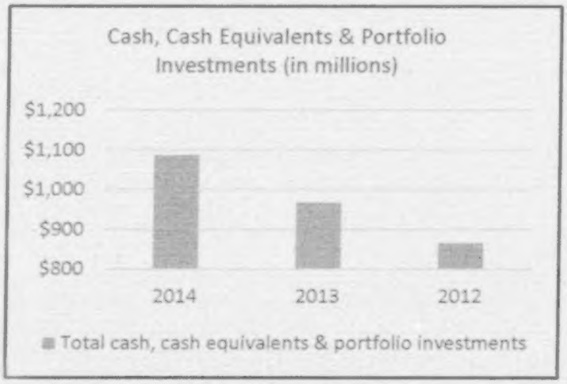
- All 74 school jurisdictions applied public sector accounting standards in preparing their fiscal 2014 financial statements.
- The number of schools that received a qualified audit opinion on their financial statements was two (2013–three, 2012–three).
- The net consolidated accumulated unrestricted operating surplus and operating reserves[2] increased to $502 million (2013–$452 million, 2012–$347 million). No jurisdictions had an accumulated deficit (2013–one, 2012–four).



- The number of school jurisdictions that incurred an annual operating deficit increased to 28 (2013–20, 2012–30). The combined net operating surplus was $81 million on a budgeted deficit of $72 million (2013–net operating surplus of $92 million, budgeted deficit of $72 million, 2012–net operating surplus of $53 million, budgeted deficit of $113 million).



- The total cash, cash equivalents and portfolio investments increased to $1.1 billion (2013–$967 million, 2012–$865 million). This increase correlates to an increase in the combined unrestricted surplus, operating reserves and capital reserves over the three-year period.



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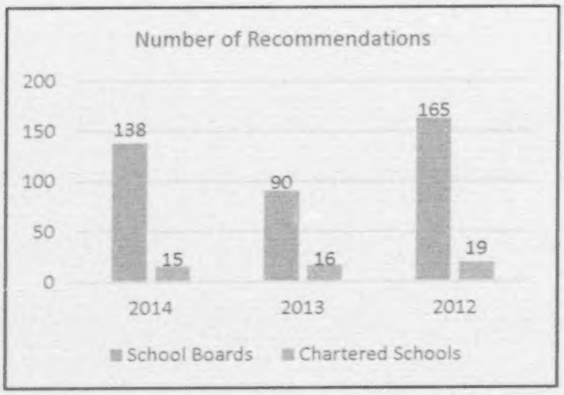
[2] Reserves are an unrestricted surplus which the school trustees have internally restricted for either a planned future operating or capital expenditure. The trustees restrict the unrestricted surplus into a reserve (or remove restrictions to increase the unrestricted surplus) at their discretion through an approved board of trustees resolution. Operating reserves also include school generated funds which are funds raised by the schools for a specific purpose and cannot be used for any other purpose at the school trustees' discretion. School generated funds in 2014 are $41.7 million (2013–$39.0 million, 2012–$35.7 million).

- The number of recommendations made to school jurisdictions by their auditors increased to 153 (2013–106, 2012–184). This increase indicates school jurisdictions continue to face challenges annually in establishing and sustaining strong internal controls and financial reporting. School jurisdiction trustees should hold management of their jurisdiction accountable for achieving that desired result.



- 23 jurisdictions had no recommendations (2013–36, 2012–24).
- There were no significant changes in the type of recommendation made to jurisdictions. However, there were significant increases in the recommendations related to purchases and school generated funds.

Background

We are the appointed auditor of one of the school jurisdictions (Northland School Division No. 61). For all other school jurisdictions, we examined the management letters of their auditors and the auditors' reports on the financial statements. Those audits were not designed to assess all key systems of control and accountability. The auditors do report to management about weaknesses that come to their attention when auditing the financial statements.

The composition of school jurisdictions by fiscal year follows:

	SCHOOL BOARDS[3]	CHARTERED SCHOOLS	TOTAL
2014	61	13	74
2013	62	13	75
2012	64	13	77

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[3] Total number of school boards excludes Alberta Distance Learning (ADL).

Financial reporting

Under Section 151 of the *School Act*, school jurisdiction auditors must send management letters, auditor's reports and audited financial statements to the minister by November 30 of each year.

Auditor's reports—Two school jurisdictions (Calgary Girls' School Society and Valhalla School Foundation) received a qualified auditor's report on their fiscal 2014 financial statements (2013–three, 2012–three). Consistent with 2013 and 2012, the reports for these two chartered schools were qualified because the auditors were unable to verify the completeness of gifts, donations and fundraising revenue.

All school jurisdiction auditors reported that their fiscal 2014 financial statements were presented applying public sector accounting standards.

Financial statements—Twenty-one school boards and seven charter schools incurred an annual deficit from operations (2013–17 school boards and 3 charter schools, 2012–27 school boards and 3 chartered schools). The net annual operating surplus of all school jurisdictions combined was $81 million (2013–$92 million surplus, 2012–$53 million surplus). Annual deficits from operations are acceptable to the department as long as jurisdictions have sufficient accumulated surpluses available to cover the shortfall.

Accumulated deficits from operations[4] are not acceptable to the ministry. School jurisdictions with accumulated deficits from operations are expected to work with the ministry to eliminate the accumulated operating deficit. No school boards had an accumulated deficit from operations as at August 31, 2014 (2013–one, 2012–four). No chartered school had an accumulated deficit from operations in the past two fiscal years.

The combined accumulated unrestricted surplus and operating reserves increased to $502 million (2013–$452 million, 2012–$347 million) or seven per cent of the total operating expenses for jurisdictions in fiscal 2014. The department monitors if a jurisdiction's combined accumulated unrestricted surplus and operating reserves,[4] as a percentage of total operating expenses, is within a reasonable range. The range applied by the department is one to four per cent. Fifty-nine jurisdictions were above and no jurisdictions were below this range as at August 31, 2014 (2013–61 jurisdictions above and two below the range, 2012–51 jurisdictions above and four below the range).

The total cash, cash equivalents and portfolio investments increased to $1.1 billion (2013–$967 million, 2012–$865 million). This increase correlates with an increase in the combined unrestricted surplus, operating reserves and capital reserves at school jurisdictions over this period.

The total operating surplus was $81 million on a budgeted deficit of $72 million (2013–operating surplus of $92 million, budgeted deficit of $72 million, and 2012–operating surplus of $53 million, budgeted deficit of $113 million).

The net book value of tangible capital assets at school boards is approximately $5 billion (2013–$5 billion, 2012–$5 billion). These assets are funded through a combination of the school's accumulated surplus, restricted grant funding, and debt. As at August 31, 2014, school boards funded approximately $594 million or 11.3 per cent of these assets from unrestricted surpluses (2013–$574 million, 2012–$566 million). School boards have also set aside capital reserves of $147 million for future capital expenses (2013–$136 million, 2012–$150 million).

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[4] For purposes of this analysis, operating reserves excludes school generated funds as school trustees cannot apply discretion in use of these funds.

Similar to our fiscal 2013 summary report,[5] we were unable to identify any analysis in the department's annual report of the reasonableness of:
- the unrestricted surplus and operating reserve balances and the expected future performance improvements at jurisdictions from applying these funds
- cash, cash equivalent and portfolio investment balances and their correlation with future plans at the school jurisdictions to apply these funds
- surplus amounts and the expected future budgeted operating surplus/deficits at jurisdictions
- capital reserves relative to the department's future capital planning

Management letter recommendations

There were a total of 153 recommendations made to school jurisdictions for fiscal 2014 (2013–106, 2012–184). Auditors for 23 school jurisdictions did not report any findings and recommendations to management (2013–36, 2012–24). These results indicate school jurisdictions continue to face challenges annually in establishing and sustaining the overall strength of internal controls and the quality of their financial reporting. We encourage school jurisdiction trustees to hold management of their respective jurisdiction accountable to implement all process recommendations identified. The department contacts jurisdictions, where necessary, to encourage them to resolve control weaknesses identified in the management letters, particularly recommendations repeated from prior years.

The following is a summary of the audit findings and recommendations reported to school jurisdictions by their auditors for the fiscal years ended August 31, 2014 and 2013.

We have grouped our summary of audit findings into the following categories:
- financial reporting and governance
- internal control weaknesses
- information technology management

Users of this summary should keep in mind that the audits from which these findings came were not designed to assess all key control and accountability systems. Our summary of the recommendations made to school jurisdictions identifies trends across the sector. The Department of Education and school jurisdictions can use this information to work together to rectify identified common control weaknesses. Management of individual school jurisdictions can also use this information to proactively consider the sustainability of their jurisdiction's control environment, particularly where the trend is an increased number of recommendations. We do not identify the school jurisdictions associated with recommendations, as this information is not necessary in order for the department and school jurisdictions to achieve their desired result—establishing sector-wide strong, sustainable internal controls for financial reporting.

Financial reporting and governance recommendations

Accounting issues—Ten jurisdictions (including three of the eight reported in 2013) should resolve the accounting issues treatment relating to capitalization versus expensing items, recognizing liabilities appropriately, revenue recognition, leases and its relevant costs.

Board approval—No jurisdictions (two reported in 2013) failed to ensure that board minutes are approved appropriately.

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[5] *Report of the Auditor General of Alberta—October 2014* page 119.

Board oversight—Five jurisdictions (including one reported in 2013) should ensure that the board receives timely information in areas such as monthly or quarterly financial statements and progress on recommendations in the auditor's management letter to maintain and strengthen overall stewardship and that the finance committee takes on a more proactive financial oversight role.

Budgetary process—Five jurisdictions (including none of the two reported in 2013) should improve their budgetary processes.

Review of financial information—Ten jurisdictions (including four of the 12 reported in 2013) should improve their review and approval of financial information such as bank reconciliations, journal entries, monthly financial statements and variances between budget and actual expenditures.

Timeliness of recording financial information—One jurisdiction (including none of the three reported in 2013) should ensure accounting transactions for capital assets and capital grant expenditures, accruals, receivables are recorded or financial statements are prepared on a regular and timely basis.

Personnel and staff shortages—Two jurisdictions (including one of the two reported in 2013) should implement succession plans or cross-training for key financial positions or review the allocation of staff resources in the accounting function.

Internal control weakness recommendations

Cash management—Five jurisdictions (including none of the five reported in 2013) should improve cash management processes and controls.

Capital assets—Four jurisdictions (including two of the five reported in 2013) should improve the recording and tracking of capital assets.

Goods and services tax—Five jurisdictions (including two of the five reported in 2013) should improve their processes for charging the appropriate amount of GST and for recording the accurate amount of GST paid and recoverable.

Payroll—Seventeen jurisdictions (including 10 of the 15 reported in 2013) should improve controls over the administration of employee payroll information, processing of expense claims, application of vacation pay policies and regular reviews of payroll expense.

Policies and procedures—Five jurisdictions (including two of the four reported in 2013) should implement, update or follow formal procedures and policies.

Purchases—Thirteen jurisdictions (including two of the six reported in 2013) should improve controls over the purchase cycle such as the review and authorization processes over purchases and payments, employee sign off for goods received and retention of supporting documentation.

Segregation of duties—Nine jurisdictions (including five of the eight reported in 2013) should segregate duties over authorization and recording of transactions or custody of and accounting for certain assets.

School-generated funds—Fourteen school jurisdictions (including six of the nine reported in 2013) should improve the processes used to collect, record, spend and report school generated funds.

Information technology management recommendations

Computer security—Four jurisdictions (including three of the four reported in 2013) should improve computer security processes by having unique individual usernames and passwords, implementing a mandatory password change policy, having user access restricted for the appropriate information and backing up data at an offsite location.

Change management—Three jurisdictions (including one reported in 2013) should implement or enhance formal, documented policies and procedures for managing and testing changes to system and network software or hardware.

Matters from prior audits

There are no matters to report from previous audits.

NORTHLAND SCHOOL DIVISION NO. 61

Matters from prior audits

Improve financial reporting—repeated

Background

In 2010[6] we recommended that the Northland School Divisions No. 61 improve its financial reporting by:

- preparing and presenting quarterly financial information to the official trustee
- regularly reviewing and reconciling general ledger accounts
- preparing year-end financial statements promptly

We repeat this recommendation because the division has not demonstrated it can prepare financial statements on a timely basis.

RECOMMENDATION 10: IMPROVE FINANCIAL REPORTING—REPEATED

We again recommend that the Northland School Division No. 61 improve its financial reporting by:

- regularly reviewing and reconciling general ledger accounts
- preparing year-end financial statements promptly

Criteria: the standards for our audit

Strong financial reporting processes should be in place to provide reliable, periodic, financial information to management and the Official Trustee.

Our audit findings

KEY FINDING

Management was unable to promptly prepare accurate financial reporting.

While quarterly financial reporting has been prepared and provided to the official trustee, the division was unable to produce accurate financial statements within scheduled year end timelines. A number of sub-ledgers were not promptly reconciled to the general ledger.

Implications and risks if recommendation not implemented

Management and the official trustee will not have reliable financial information with which to make decisions.

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[6] *Report of the Auditor General of Alberta—October 2010*, no. 14, page 134.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendation is outstanding and not yet ready for a follow-up audit:

Systems to improve student attendance in Northland School Division: Oversight by the department—March 2015, no. 2, p. 23

We recommend that the Department of Education exercise oversight of Northland School Division by ensuring:

- the division develops and executes an operational plan to improve student attendance
- the operational plan identifies the resources needed and how results will be measured, reported and analyzed

NORTHLAND SCHOOL DIVISION NO. 61

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve financial reporting—October 2015, no. 10, p. 86)
(Originally October 2010, no. 14, p. 134)

We again recommend that the Northland School Division No. 61 improve its financial reporting by:

- regularly reviewing and reconciling general ledger accounts
- preparing year-end financial statements promptly

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Systems to improve student attendance in Northland School Division: Develop plan to improve student attendance—March 2015, no. 1, p. 23

We recommend that Northland School Division develop an operational plan with short- and long-term targets to improve student attendance. The operational plan should include:

- measurable results and responsibilities
- a prioritized list of student-centred strategies, initiatives and programs
- documentation of the costs and resources required to action the strategies, initiatives and programs
- a specific timeline for implementation
- reporting on progress and accountability for improved attendance results

Systems to improve student attendance in Northland School Division: Monitor and enforce student attendance—March 2015, no. 3, p. 30

We recommend that Northland School Division improve its guidance and procedures for schools to:

- consistently record and monitor student attendance
- benchmark acceptable attendance levels
- manage and follow up on non-attendance

Energy

SUMMARY

DEPARTMENT

Matter from the current audit

There are no new recommendations to the Department of Energy in this report.

Matters from the prior audits

We followed up two outstanding recommendations and determined that the Department of Energy has implemented them—see below.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from prior audits

Improve financial reporting process—implemented

Our audit findings

Last year[1] we recommended that the department improve its financial reporting processes. We identified many errors and inconsistencies in the financial statements due to insufficient understanding by program areas on how to develop financial reporting estimates and ineffective review by the finance area.

The department implemented our recommendation. The finance area designed and introduced standard procedures to assist program areas in developing estimates for financial reporting. These procedures were tested early in the year to ensure they would be effective for year end. We also noted that the department has developed effective processes to review the financial statements and supporting working papers to ensure accuracy and completeness before they are presented for audit.

Improve controls to ensure consistent application of methodology used to calculate bitumen royalty estimates—implemented

Our audit findings

In 2011[2] we made a recommendation to the department to improve its processes to estimate bitumen royalty revenue. We repeated this recommendation in 2012,[3] as our audit work continued to identify a significant number of errors in the bitumen royalty estimate.

The department implemented our recommendation to improve controls to ensure consistent application of methodology used to calculate bitumen royalty estimates. This year we noted that the department has developed complete documentation on items that impact the bitumen estimates. The program areas also improved their communication with the finance team, which resulted in accurate bitumen royalty estimates. Our audit procedures did not identify any significant errors in bitumen royalty estimates this year.

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[1] *Report of the Auditor General of Alberta—October 2014*, no. 15, page 125.
[2] *Report of the Auditor General of Alberta—November 2011*, no. 13, page 89.
[3] *Report of the Auditor General of Alberta—October 2012*, no. 15, page 97.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

There are no outstanding recommendations to the Department of Energy.

ALBERTA ENERGY REGULATOR

The following recommendations are outstanding and not yet ready for follow-up audits:

Systems to regulate pipeline safety and reliability in Alberta: Use risk management activities to make informed decisions—March 2015, no. 4, p. 46
We recommend that the Alberta Energy Regulator use its risk management activities to make informed decisions on allocating resources and determine the nature and extent of activities to oversee pipelines.

Systems to regulate pipeline safety and reliability in Alberta: Formalize training program for core pipelines staff—March 2015, no. 5, p. 46
We recommend that the Alberta Energy Regulator complete a skills gap analysis and formalize a training program for its core pipeline staff

Systems to regulate pipeline safety and reliability in Alberta: Identify performance measures and targets—March 2015, no. 6, p. 51
We recommend that the Alberta Energy Regulator identify suitable performance measures and targets for pipeline operations, assess the results obtained against those measures and targets, and use what it learns to continue improving pipeline performance.

Systems to regulate pipeline safety and reliability in Alberta: Review pipeline incident factors —March 2015, no. 7, p. 53
We recommend that the Alberta Energy Regulator:

- expand its analysis of pipeline incident contributing factors beyond the primary causes
- promptly share lessons learned from its investigations with industry and operators

Systems to regulate pipeline safety and reliability in Alberta: Assess current pipeline information —March 2015, no. 8, p. 56
We recommend that the Alberta Energy Regulator complete an assessment of its current pipeline information needs to support effective decision making, and determine the type and extent of data it should collect from pipeline operators, through a proactive, risk-based submission process.

Systems to regulate pipeline safety and reliability in Alberta: Implement risk-based compliance process—March 2015, no. 9, p. 59
We recommend that the Alberta Energy Regulator implement a cost effective risk-based compliance process to evaluate the adequacy and effectiveness of pipeline operators' integrity management programs, and safety and loss management systems.

Systems to ensure sufficient financial security for land disturbances from mining: Improve program monitoring—July 2015, no. 3, p. 31
We recommend that the Alberta Energy Regulator, as part of its enterprise risk assessment process, develop and execute on a risk-based plan for its Mine Financial Security Program monitoring activities to ensure it is carrying out the appropriate amount of verification.

Environment and Parks

SUMMARY

DEPARTMENT

Matters from current audit

The Department of Environment and Parks should improve its financial reporting processes—see below.

Matters from past audits

Environment and Parks—Managing *Water Act* partnerships and regulatory activities follow-up—see page 43

ALBERTA ENVIRONMENTAL MONITORING, EVALUATION AND REPORTING AGENCY

There are no new recommendations to AEMERA in this report.

NATURAL RESOURCES CONSERVATION BOARD

There are no new recommendations to NRCB in this report.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from the current audit

Improve financial reporting processes

Background

The Department of Environment and Parks has a difficult financial reporting task. The department frequently makes changes to its financial statements as a result of government reorganization decisions made by the legislative assembly. For many of the financial processes, the department relies on reporting systems that are outside its control. There are multiple departmental revenue streams which are handled by other entities within the government. As well, the department experienced significant turnover in key financial reporting staff in the current year.

RECOMMENDATION 11: IMPROVE FINANCIAL REPORTING PROCESSES

We recommend that the Department of Environment and Parks improve its process for preparing timely and reliable financial statements by:

- improving the quality of documentation and analysis to support financial statement items and disclosures
- preparing reconciliations for key financial statement balances
- scheduling and evidencing management reviews of financial statements, analysis and supporting documentation before finalizing draft financial statements

Criteria: the standards for our audit

The department should have an effective process to produce timely, reliable and high quality financial statements. This process should encompass quality control procedures to ensure:

- financial statements and disclosures have adequate supporting analysis
- proper reconciliations are prepared
- management reviews are completed promptly

Our audit findings

KEY FINDINGS

The department's finance group did not:

- promptly prepare accurate financial statements and supporting working papers
- account for the restatement of the department's portion of the former Ministry of Tourism, Parks and Recreation until year end
- reconcile transactional listings of certain revenue populations from various revenue systems to its general ledger

We found significant weaknesses in the department's financial statement preparation process. We identified four transactions that contributed to an aggregate of $30 million in errors in the draft financial statements. The finance team took action to correct the errors after the audit team informed management of the deficiencies.

Accuracy

We found errors and inconsistencies in many components of the financial statements, note disclosures and supporting analysis. Examples include:

- The department's staff prepared analysis that contained information that was not consistent with the financial statements. The analysis was not updated for accounting adjustments.
- The listings of certain balance sheet items consisted of general ledger details rather than detailed listings of the balances held at year end.
- There was little evidence to show that management performed secondary reviews of the financial statements and analysis before these documents were presented for the audit.

Timeliness

The department waited until year end to perform important tasks that could have been done in advance of the year-end financial statement preparation. For example:

- We expected management to have concluded restatement accounting entries earlier in the fiscal year, but they did not. The transfer of portions of the former Ministry of Tourism, Parks and Recreation was ordered in September 2014. The restatement was not finalized until April 27, 2015 and further changes to the restatement were made after the audit commenced. The department did not promptly account for the restatement of the department's portion of the former Ministry of Tourism, Parks and Recreation.
- The responses to our audit requests for populations of key transaction streams made during the interim audit in February 2015 were delayed until year end.

Reconciliations

The department did not reconcile:

- transactional listings from various revenue tracking systems to the general ledger
- the cash in transit balance

Implications and risks if recommendation not implemented

Without an effective financial statement reporting process, the department cannot accurately and promptly report its financial results. Weak processes increase the risk that the financial statements will have material misstatements. Ineffective processes contribute to inefficiencies that impair the ability of the department to receive a cost effective audit.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Sand and gravel: Flat fee security deposit—October 2008, no. 41, p. 362
We recommend that the Department of Environment and Parks assess the sufficiency of security deposits collected under agreements to complete reclamation requirements.

Climate change: Public reporting—October 2012, no. 10, p. 38
(Originally October 2008, no. 11, p. 101)
We again recommend that the Ministry of Environment and Parks improve the reliability, comparability and relevance of its public reporting on Alberta's results and costs incurred in meeting climate change targets.

Climate change: Improve planning—July 2014, no. 2, p. 41
(Originally October 2008, no. 9, p. 97)
We again recommend that the Department of Environment and Parks improve Alberta's response to climate change by:

- establishing overall criteria for selecting climate change actions
- creating and maintaining a master implementation plan for the actions necessary to meet the emissions intensity target for 2020 and the emissions-reduction target for 2050
- corroborating—through modeling or other analysis—that the actions chosen by the ministry result in Alberta being on track for achieving its targets for 2020 and 2050

Climate change: Improve monitoring processes—July 2014, no. 3, p. 44
(Originally October 2008, no. 10, p. 100)
We again recommend that for each major action in the 2008 Climate Change Strategy, the Department of Environment and Parks evaluate the action's effect in achieving Alberta's climate change goals.

Sand and gravel: Enforcement of reclamation obligations—July 2014, no. 4, p. 51
(Originally October 2008, no. 40, p. 360)
We again recommend that the Department of Environment and Parks improve processes for inspecting aggregate holdings on public land and enforcing land reclamation requirements.

Sand and gravel: Quantity of aggregate removed—July 2014, no. 5, p. 52
(Originally October 2008, p. 364)
We again recommend that the Department of Environment and Parks develop systems to verify quantities of aggregate reported as removed by industry from public lands so that all revenue due to the Crown can be assessed and recorded in the financial statements.

Flood mitigation systems: Update flood hazard maps and mapping guidelines —March 2015, no. 10, p. 76
We recommend that the Department of Environment and Parks improve its processes to identify flood hazards by:

- mapping flood areas that are not currently mapped but are at risk of flooding communities
- updating and maintaining its flood hazard maps
- updating its flood hazard mapping guidelines

Flood mitigation systems: Assess risk to support mitigation policies and spending —March 2015, no. 11, p. 78
We recommend that the Department of Environment and Parks conduct risk assessments to support flood mitigation decisions.

Flood mitigation systems: Assess effects of flood mitigation actions—March 2015, no. 13, p. 82
We recommend that the Department of Environment and Parks establish processes to assess what will be the cumulative effect of flood mitigation actions in communities when approving new projects and initiatives.

Systems to regulate dam safety: Develop plan to regulate dams—March 2015, no. 14, p. 90
We recommend that the Department of Environment and Parks develop a plan to regulate dams and report on the results of its regulatory activities.

Systems to regulate dam safety: Improve dam regulation activities—March 2015, no. 15, p. 92
We recommend that the Department of Environment and Parks improve its dam regulatory activities by:

- maintaining a reliable registry of dams
- obtaining sufficient information to assess the risk and consequences of dam failure
- retaining evidence of regulatory activities performed
- following up to ensure that owners correct deficiencies or manage them until they are corrected

Systems to manage grazing leases: Clarify objectives, benefits and relevant performance measures—July 2015, no. 1, p. 20
We recommend that the Department of Environment and Parks define and communicate the environmental, social and economic objectives it expects grazing leases should provide all Albertans as well as relevant performance measures to monitor and ensure those objectives are met.

Systems to ensure sufficient financial security for land disturbances from mining: Improve program design—July 2015, no. 2, p. 29
We recommend that the Department of Environment and Parks, as part of its regular review of the Mine Financial Security Program:

- analyze and conclude on whether changes to the asset calculation are necessary due to overestimation of asset values in the methodology
- demonstrate that it has appropriately analyzed and concluded on the potential impacts of inappropriately extended mine life in the calculation

Systems to manage the SGE Regulation: Clarify SGE Regulation guidance documents —July 2015, no. 4, p. 43
(Originally October 2009, no. 4, p. 46, repeated as November 2011, no. 1, p. 17)
We recommend for a third time that the Department of Environment and Parks clarify the guidance it provides to facilities, verifiers, offset project developers and offset protocol developers, to ensure they consistently follow its requirements to achieve the Alberta government's emission reduction targets.

Systems to manage the SGE Regulation: Ensure offset protocols meet new standard and improve transparency—July 2015, no. 5, p. 46
(Originally November 2011, no. 2, p 23)
We again recommend that the Department of Environment and Parks implement processes to ensure that all approved protocols adhere to its protocol development standard.

Managing Alberta's water supply: Wetland compensation—October 2015, no. 6, p. 45
(Originally April 2010, no. 6, p. 71)
We again recommend that the Department of Environment and Parks formalize its wetland compensation relationships and control procedures.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Drinking water: Information systems—October 2006, no. 4, vol. 1, p. 52
We recommend that the Department of Environment and Parks improve the information systems used to manage its drinking water businesses by:

- updating the Environmental Management System forms and improving reporting capacity
- coordinating regional, district, and personal information systems to avoid overlap and encourage best practice, and
- using data to improve program effectiveness and efficiency

Climate change: Outsourced service providers—October 2009, p. 49
We recommend that the Department of Environment and Parks develop controls to gain assurance that data hosted or processed by third parties is complete, accurate and secure. We also recommend that the Department of Environment and Parks formalize its agreement with its service provider for the Alberta Emissions Offset Registry.

DEPARTMENT AND MUNICIPAL AFFAIRS

The following recommendation is outstanding and not yet ready for a follow-up audit:

Flood mitigation systems: Designate flood hazard areas and complete floodway development regulation—March 2015, no. 12, p. 80
To minimize public safety risk and to avoid unnecessary expenditure of public money, we recommend that the:

- Department of Environment and Parks identify flood hazard areas for designation by the minister
- Department of Municipal Affairs:
  - establish processes for controlling, regulating or prohibiting future land use or development to control risk in designated flood hazard areas
  - put in place processes to enforce the regulatory requirements

ALBERTA ENVIRONMENTAL MONITORING, EVALUATION AND REPORTING AGENCY

The following recommendations are outstanding and not yet ready for follow-up audits:

Joint Canada–Alberta Plan for Oil Sands Monitoring: Ensure timely, accurate and transparent public reporting—October 2014, no. 1, p. 26
We recommend that the Alberta Environmental Monitoring, Evaluation and Reporting Agency work with the Government of Canada to ensure that public reporting on the joint plan is timely, accurate and transparent.

Joint Canada–Alberta Plan for Oil Sands Monitoring: Improve planning and monitoring —October 2014, no. 2, p. 29
We recommend that the Alberta Environmental Monitoring, Evaluation and Reporting Agency:

- implement effective processes for monitoring project status
- develop and implement work plans, with roles and responsibilities and timelines and deliverables, for implementing all key commitments under the joint plan
- clarify what needs to be done to implement any joint plan projects and commitments remaining after March 2015

NATURAL RESOURCES CONSERVATION BOARD

There are no outstanding recommendations to NRCB.

Executive Council

SUMMARY

DEPARTMENT

There are no new recommendations to Executive Council.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Chief executive officer: Guidance—October 2008, no. 1, p. 27
We recommend that the Deputy Minister of the Department of Treasury Board and Finance through the Agency Governance Secretariat assist agencies and departments by providing guidance in the areas of chief executive officer selection, evaluation and compensation.

Chief executive officer: Accountability—October 2008, no. 2, p. 29
We recommend the Agency Governance Secretariat, on behalf of ministers, annually obtain information from agencies on chief executive officer evaluation and compensation processes to assess if good practices are being consistently followed. The results of these systems assessments should be reported to ministers who should then hold boards of directors accountable for their decisions.

Public agencies: Executive compensation practices—October 2009, no. 1, p. 23
We recommend that the Deputy Minister of the Department of Treasury Board and Finance, through the Agency Governance Secretariat, assist public agencies and departments by providing guidance on executive compensation practices for all public agency senior executives.

Assess risk and improve oversight—October 2012, no. 11, p. 62
We recommend that Executive Council:

- assess the risks to public information assets throughout the government
- determine if the government has adequate IT security policies, standards and controls to mitigate risks
- determine who is responsible and accountable to ensure that public information assets are adequately protected. Specifically:
    - who is responsible for monitoring compliance with IT security requirements
    - who is responsible for ensuring or enforcing compliance with security requirements
    - what actions should be taken when non-compliance is identified
    - how is compliance to security requirements demonstrated

DEPARTMENT AND MUNICIPAL AFFAIRS

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Various departments—Contracting: Improve compliance with contracting policies —October 2014, no. 10, p. 62

We recommend that the Departments of Municipal Affairs and Executive Council:

- document the rationale for contracting services and selecting vendors when entering into sole sourced contracts
- follow proper contract administration and evaluation processes update their contracting policies to deal with situations where one department arranges for a contractor to perform services for another department

Health

SUMMARY

DEPARTMENT

Matters from the current audit

Healthcare card processes—see below

Processes to check receipt of services for which physicians billed—see page 101

ALBERTA HEALTH SERVICES

Matters from the current audit

Disaster recovery planning—see page 103

Matters from prior audits

Health—Alberta Health Services—Managing healthcare waste materials follow-up—see page 51

AHS has implemented the following prior year recommendations:

- Financial operations—see page 106
- Effectiveness of insurance reciprocal (Liability and Property Insurance Plan)—see page 107
- Payroll—accuracy monitoring activities—see page 107

In the past year AHS made satisfactory progress on:

- Approval of drug purchases—see page 108

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from the current audit

Healthcare card processes

Background

The *Alberta Health Care Insurance Act*[1] requires the Minister of Health "in accordance with this Act and the regulations… to provide benefits for basic health services[2] to all residents of Alberta."

The Department of Health provides access to these benefits by issuing, to each eligible resident, a paper healthcare card which indicates the individual's unique lifetime personal health number. As a prerequisite for obtaining the card, individuals[3] must provide proof of their identity, Alberta residency and legal right to be in Canada.

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[1] Section 3(1) *Alberta Health Care Insurance Act.* Section 4 indicates the types of residents who are not entitled to the payment of benefits for the purposes of the Act.

[2] Basic health services are defined in Section 1(b) of the Act.

[3] The department requires the registrant and spouse to provide proof of their identity, Alberta residency and their legal right to be in Canada. The dependents of the registrant/spouse do not have to provide proof of their identity and residency. However, proof of their legal right to be in Canada must be provided if it is indicated they are not Canadian citizens.

In previous recommendations[4] we focused on the processes to obtain an Alberta healthcare card and the department's controls over issuing duplicate cards. We focus here on strengthening the department's process to ensure that Alberta Health Care Insurance Plan (AHCIP) registrants continue to meet the residency requirements.

Under the *Alberta Health Care Insurance Act*, a resident[5] is defined as "a person lawfully entitled to be or remain in Canada, who makes the person's home and is ordinarily present in Alberta and any other person deemed by the regulations to be a resident, but does not include a tourist, transient or visitor to Alberta."

The department is responsible for ensuring that registrants continue to meet the residency requirements.

The department uses the following processes to check whether registrants continue to be residents of Alberta:

- The department gets migration reports from most provinces and territories about people who have registered with other provincial and territorial health care systems, and from Alberta Vital Statistics if a person dies in Alberta. When the department gets this information, it cancels the person's Alberta healthcare coverage and records the AHC number as ineligible.
- The department can also get information on address changes for individuals with AHC numbers if they are registered for other benefits for which the department pays. When individuals change their address, including leaving Alberta temporarily for a period expected to exceed six months, they are supposed to contact the department.
- The department receives and investigates tips from residents, leading in some cases to the cancellation of Alberta health coverage for ineligible registrants. In some cases, Service Alberta's Special Investigations Unit (SIU) conducts the investigation if it is suspected that there is fraudulent provision of insured health services due to inappropriate use of AHC numbers.

The department has staff who identify and assess the risks of the department making payments for amounts not in compliance with legislation. This includes the risk of the department paying for healthcare coverage of individuals who do not meet the residency requirements. During 2014–2015, through a tip, the department identified a type of individual profile that presented a higher risk for ineligible residency status. They checked a sample to determine whether individuals with this type of profile still met the residency requirements. Through this test they identified some ineligible registrants and cancelled their registration. As a result of validating the risk profile, the department is currently considering the next steps to manage this risk.

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[4] *Annual Report of the Auditor General of Alberta—1998–99*, no. 40, page 200; *Annual Report of the Auditor General of Alberta—2003–04*, no. 21, page 190; and *Report of the Auditor General of Alberta—October 2008*, page 305.

[5] Section 1(x) of the *Alberta Health Care Insurance Act*. Part 1 of the *Alberta Health Care Insurance Regulation* also contains provisions about residency. The Department of Health also has information on residency requirements on their website. http://www.health.alberta.ca/AHCIP/registration-requirements.html and http://www.health.alberta.ca/AHCIP/outside-coverage.html

RECOMMENDATION 12: ESTABLISH A PROACTIVE CHECK TO ENSURE THAT INDIVIDUALS WITH AN ALBERTA HEALTHCARE NUMBER CONTINUE TO MEET RESIDENCY REQUIREMENTS

We recommend that the Department of Health improve its processes by establishing a proactive check to ensure that individuals who have been issued an Alberta healthcare number continue to meet the residency requirements specified in the *Alberta Health Care Insurance Act* and *Regulation.*

Criteria: the standards for our audit

The Department of Health should have adequate controls to ensure that individuals with AHC numbers who receive Alberta healthcare services continue to meet the Act and the Regulation's residency requirements.

Our audit findings

KEY FINDING

Before the Department of Health issues an Alberta healthcare card it ensures that the individual meets residency requirements. Its controls do not ensure individuals with Alberta healthcare cards continue to meet these requirements after the initial check.

The department's processes are designed to rely on other provincial/territorial governments or agencies informing the department when the registrant no longer qualifies for residency and moves to another location in Canada. However, this control does not adequately mitigate the risk of registrants not continuing to meet residency requirements. For example, one of the provincial governments does not provide the department with a migration report and the department does not receive migration reports when registrants establish residency in locations outside of Canada.

The department also relies on registrants to inform the department when they stop meeting the definition of resident in Alberta. However, the department does not have a proactive process to test whether or not this control is working.

Most other provinces and the territories mitigate the risk of registrants no longer qualifying because of residency by issuing healthcare cards with an expiry date and having renewal processes. The Alberta healthcare card currently does not have an expiry date except for healthcare cards issued after August 2013 to temporary visa holders.

Implications and risks if recommendation not implemented

The department may pay for healthcare for people who do not meet Alberta residency requirements.

Processes to check receipt of services for which physicians billed

Background

In 2013–2014, the Department of Health paid to physicians approximately $2.8 billion in fee-for-service payments.[6]

The department, as payer of healthcare services, is separate from the person who provides the healthcare service and the person who receives the healthcare service.

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[6] Alberta Health AHCIP Statistical Supplement 2013/2014, page 12 Fee-For-Service Payments, 2013/2014.

Physicians paid on a fee-for-service basis bill the department for the services they perform based on approved rates in the Schedule of Medical Benefits (the SOMB).[7] *The Alberta Health Care Insurance Act* allows the department to reassess and recover incorrect payments to physicians.[8]

The department has staff who identify and assess the risk of the department making payments for amounts not in compliance with legislation. Their processes include identifying payments where policy changes are needed, monitoring adherence to regulations for payments to physicians and, where risks are identified, auditing physician service billings.

The department also has a memorandum of understanding with Service Alberta's Special Investigations Unit (SIU). The duties of the SIU include investigating fraudulent activity regarding health service providers and residents of Alberta.

Previously the department sent letters to a sample of healthcare recipients to confirm that they received the services the department was billed for. The department also performed some random audits of payments to physicians.

In the 2014–2015 fiscal year, the department recovered $6.2 million for physician claims previously paid out.[9] When the department pursues a recovery it may take several years to collect from a physician.

RECOMMENDATION 13: ENHANCE PROCESSES TO CHECK FOR RECEIPT OF SERVICES FOR WHICH PHYSICIANS BILLED

We recommend that the Department of Health enhance the processes it uses to check whether:

- patients received the medical services for which physicians billed the department
- payments are being made in accordance with the provisions of the *Alberta Health Care Insurance Act*

Criteria: the standards for our audit

The Department of Health should have adequate controls to ensure the legitimacy of payments to physicians for services provided to healthcare recipients.

Our audit findings

KEY FINDING

The Department of Health pays physicians' claims for medical services provided to healthcare recipients. While the department obtains assurance on the part of the physician claim population that it believes to be of higher risk, they don't have a process to get assurance on the remaining part of the population. The department may pay for medical services that were not provided or were incorrectly billed.

The department's staff focuses on identifying claims, through interrogation of the claims database, with risk profiles that may be indicative of fraud or error. They investigate these claims and claims where tips from the public indicate a risk of fraud or error.

It is appropriate for the department to perform these kinds of tests. However, the department has not recognized the reasonable probability that these risk profiles may not capture all of the possible fraud or errors. Further, with the elimination of sending confirmation letters to healthcare recipients and random audits of physician payments, the department does not have a process to periodically check the legitimacy of payments not falling within those risk profiles.

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[7] See http://www.health.alberta.ca/professionals/SOMB.html

[8] See Section 18(5)(a).

[9] This amount represents what the department received in this fiscal year for investigations that took place in 2012, 2013, 2014 and 2015.

The department does not have its own estimate of the amount of healthcare fraud and errors that are occurring within Alberta. Implementing additional processes will help the department to be able to draw a conclusion about of the level of risk of fraud or error in the part of the service claim population which the department currently believes to be of lower risk of fraud or error. The processes would enhance the department's ability to identify physicians that do not bill the department correctly and could help in the department's efforts to recover any incorrect payments.

Implications and risks if recommendation not implemented

The department may pay health service claims for services not provided or for services billed incorrectly.

ALBERTA HEALTH SERVICES

Matters from the current audit

Disaster recovery planning

Background

On July 11, 2012, a fire in the Shaw Court building in Calgary rendered the data centre in the building unusable. As a result, AHS was unable to access electronic records it needed to provide healthcare services. For example, it was unable to electronically order lab and other diagnostic tests, electronically chart results or notations on patient records, or electronically order medications.

During a prior systems audit[10] we assessed what AHS did to improve its disaster recovery capabilities since some of its critical IT applications were suddenly not available in July 2012. Our objective was to assess whether AHS had reasonable and effective systems and processes to:

- identify the critical IT applications needed to provide its programs and services
- know the targeted times for recovering critical applications during or after a disaster
- develop well-designed and tested IT disaster recovery plans

In 2014 AHS worked with clinicians, business and IT groups and used good processes to identify its critical IT applications. AHS confirmed it had 19 critical IT applications needed to provide important health care programs and services. Four of the IT applications were deemed to be "primary critical." AHS decided to focus its resources on IT disaster recovery infrastructure and processes for its four primary critical IT applications and is in the process of completing this part of its initiative. Once finished with its four primary critical IT applications, AHS plans to use its knowledge and processes to prioritize and implement IT disaster recovery infrastructure and processes for the remaining 15 critical IT applications.

AHS's response to our June 2014 audit findings and observations stated, "Alberta Health Services IT is committed to completing the foundational work required to consolidate and improve our IT infrastructure in order to meet the targeted recovery times for our critical systems. Alberta Health Services IT will provide the detailed plan and timelines, aligned with resourcing capabilities, by Sept. 30, 2014."

In October 2014 AHS indicated it did not have a detailed plan for its initiative to implement IT disaster recovery infrastructure and processes for its 19 critical IT applications. Instead it gave us a high level four step plan. In absence of a detailed plan we decided to audit AHS's success in meeting the milestones in the first two steps of its plan that were scheduled to be completed by March 31, 2015.

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[10] *Report of the Auditor General of Alberta—October 2014*, page 41. While this recommendation was made to Service Alberta, the report references systems at AHS.

Steps two through four each depend on the previous step to be successful. The four steps in the high level plan are as follows:

MILESTONE DELIVERABLE	EXPECTED COMPLETION DATE
Determine recovery point objective (RPO) and recovery time objective (RTO)[11] in consultation with the business owner of the application.	February 28, 2015
Determine infrastructure requirements required to meet RPO and RTO requirements. Preliminary costs and time estimates will be required to determine feasibility for proceeding.	March 31, 2015
Implement infrastructure and document the processes needed to recover the applications.	To be determined
Test the documented processes.	To be determined

RECOMMENDATION 14: DEVELOP A DETAILED PLAN FOR IMPLEMENTING RISK-BASED DISASTER RECOVERY PROCESSES

We recommend that Alberta Health Services develop and follow a comprehensive plan for implementing risk-based disaster recovery processes, including the necessary IT infrastructure.

Criteria: the standards for our audit

AHS should have effective processes to define reasonable recovery point and recovery time objectives for its critical IT applications.

AHS should have effective processes to:

- identify the IT infrastructure needed to meet recovery objectives for its critical IT applications
- ensure it has the required IT infrastructure, or approved plans to acquire and implement the required infrastructure, to meet its recovery objectives
- identify critical gaps between the RPO and RTO, and what recovery objectives the IT infrastructure can reasonably meet now or in the future, and either mitigate those gaps or accept them after assessing the risks to patient care and safety

Our audit findings

KEY FINDINGS

AHS does not have:

- a detailed project plan on how and when it will implement and test its infrastructure and processes to recover its critical IT applications
- documentation to show that its recovery objectives for one of its primary critical IT applications are reasonable

AHS has not defined:

- the technical infrastructure it needs to meet recovery time objectives for its four primary critical IT applications
- what it will do to either mitigate its recovery time gaps or to analyze and accept the risks associated with not being able to meet recovery objectives

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[11] The recovery point objective (RPO) is the maximum tolerable period of data loss before the loss presents a significant risk to critical processes. The recovery time (RTO) is the maximum amount of time AHS can be without an IT application and the services it supports before there is significant risk to the organization.

Lack of a detailed project plan

AHS indicated it did not have a detailed project plan because disaster recovery is an operational initiative and not a project. Also, developing a detailed plan would take resources away from operations work. Instead, it provided us with a high level plan with four steps. The first two steps targeted completion for February 28, 2015 and March 31, 2015.

AHS stated it had completed the first two steps. We assessed the documentation they provided. We found that, for the first two steps:

- not all tasks or requirements had been completed
- incomplete tasks or requirements had not been identified as incomplete
- plans and timelines had not been identified for how and when all tasks would be done

Without a detailed plan that outlines the tasks, timelines and aligned resources, AHS cannot show it is successfully implementing IT disaster recovery capabilities or know why it was unable to meet the timelines and expected results.

Lack of supportable recovery times

AHS indicated it would complete the first stage of the project, to define recovery objectives for the four primary critical IT applications by February 28, 2015.

AHS has set reasonable and similar recovery objectives for three of its four primary critical IT applications. However, the recovery objectives for one of its four primary critical IT applications varied significantly from the other targeted recovery times. AHS did not have documentation of business impacts and assessments of risk to patient care and safety or that clinicians and end users agreed to those times.

AHS is re-assessing and restating the RPO and RTO for the one system, using a new process that includes obtaining agreement from clinicians and end users. At the time of our audit, AHS did not have detailed plans or processes to conduct business impact and risk assessments to define recovery objectives for the remaining 15 critical IT applications.

Lack of identified IT infrastructure to meet targeted recovery times

The second stage of the project, to identify the infrastructure needed to meet the targeted recovery objectives for the four primary critical IT applications, was to be completed March 31, 2015.

AHS provided us with technical documentation of the IT infrastructure it has, is planning to get, or is contracting for. However, we were unable to find a link between the documentation and whether the proposed IT infrastructure would allow AHS to meet its recovery objectives. From the documentation provided, AHS cannot state:

- whether the infrastructure it has or is planning to acquire for its four primary critical IT applications will help it meet its recovery objectives
- whether AHS will need additional IT infrastructure to meet its recovery objectives

The second step of the plan included identifying preliminary costs and timelines to determine the feasibility to proceed. Although AHS provided us with some information on costs and timelines to implement or contract for additional IT infrastructure, we were unable to link this information to the IT infrastructure needed to meet its recovery objectives.

Lack of information

AHS has downtime procedures with manual processes for its four primary critical IT applications. However, it does not know with certainty whether its current IT infrastructure can meet its targeted recovery times. Therefore, it does not have the information it needs to properly assess whether those downtime procedures would mitigate the risks to patient care and safety for the duration of time critical IT applications are not available.

AHS did not have the information it needed to assess risks and support decisions to buy, or not to buy, and implement the IT infrastructure to meet its recovery objectives. The costs or length of time to implement IT infrastructure and procedures may outweigh the benefits of meeting identified recovery objectives. Without knowing what IT infrastructure is needed to meet its target recovery times, AHS cannot support its decisions to acquire and implement the IT infrastructure or if required, to accept the risks of not being able to meet its targeted recovery times.

Implications and risks if recommendation not implemented

Without a comprehensive plan for implementing its disaster recovery program, AHS cannot know if the steps it is taking will help ensure patient care and maintain their safety if IT infrastructure suddenly becomes unavailable.

Matters from prior audits

Financial operations—implemented

Background

In 2010[12] we recommended that AHS prepare and implement a formal transition plan for the organization's finance operations which:

- assessed the resources, timelines and critical path needed to consolidate the general ledger and sub-ledger systems
- ensured rigorous change management controls are applied before implementing application system changes
- harmonized financial reporting policies and processes across the organization
- determined the adequate amount of human resources and skill levels required to implement the plan and then keep the processes operational

We made this recommendation because although AHS had begun to operate as one organization after the merger of the previous health regions, it was still using the legacy general ledgers and sub-ledger systems of the former regions. In that year's audit we also had found numerous errors and instances of where AHS had not harmonized policies and processes. AHS also did not have a plan indicating how the general ledger and sub-ledger systems would be amalgamated or policies and processes harmonized.

Our audit findings

This recommendation is implemented.

While AHS did not prepare an overall transition plan, it implemented the recommendation by harmonizing its processes through conversion from use of multiple legacy systems to one system each for accounts payable and payroll. AHS also instituted one set of financial reporting policies. While it continues to maintain legacy sub-ledgers for inventory and accounts receivable, and accordingly most legacy general ledgers as well, it has reduced the risk of errors by reducing the numbers of manual journal entries inputted into the legacy general ledgers.

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[12] *Report of the Auditor General of Alberta—October 2010*, no. 19, page 164.

Effectiveness of insurance reciprocal (Liability and Property Insurance Plan)—implemented

Background

In 2010[13] we recommended that AHS assess the effectiveness of its arrangement with the Liability and Property Insurance Plan (LPIP) as a risk management tool and assess the resulting accounting implications. We made this recommendation because AHS and its related organizations make up the majority of subscribers in the reciprocal. Also, AHS had not assessed the implications of its relationship either from an effectiveness of risk management perspective or from an accounting perspective.

Our audit findings

This recommendation is implemented.

In 2011 AHS analyzed its relationship with LPIP from an accounting perspective and concluded that the LPIP should be fully consolidated within the year-end financial statements. AHS consolidated LPIP in its financial statements effective April 1, 2010.

In 2015 AHS completed an analysis which compared the use of LPIP as a risk management tool to other alternatives available to AHS.

Payroll—accuracy monitoring activities—implemented

Background

In 2012[14] we recommended that AHS improve its monitoring activities to ensure the accuracy of transactions in its payroll system.

AHS has approximately 100,000 employees' payroll data on one centralized human resource management system, called ePeople. The AHS human resources shared services (HRSS) branch is responsible for ensuring the accuracy of input of payroll changes in the ePeople system.

We had concluded that AHS had controls to ensure payroll changes to employee master files for union agreement changes and changes to move employees from one pay increment to another were correctly done. However, AHS needed to improve controls for the changes AHS makes for individual employee changes such as moving from part-time to full-time, changes in deductions and position level changes. In 2013–2014 there were approximately 12,000 of these types of changes per month.

Through our 2014 follow up of this recommendation, we found that AHS had made several improvements to the processes that monitor the accuracy of payroll but still needed to:

- develop and monitor an overall checklist to ensure staff run each query
- document the rationale for selecting the extent of the population being tested on a monthly basis and consideration for extending this sample when errors are found
- complete these monthly tests on a timely basis

Our audit findings

This recommendation is implemented.

We found that there was an overall checklist in place and utilized to demonstrate that all of the data integrity queries had been run and by whom.

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[13] *Report of the Auditor General of Alberta—October 2010*, no. 21, page 167.

[14] *Report of the Auditor General of Alberta—October 2012*, no. 23, page 121.

We found that a rationale for the selection of a sample size for the monthly tests was documented and provided guidance on when a sample should be extended and to what extent. We also found that these monthly tests were completed and were up to date.

Approval of drug purchases—satisfactory progress

Background

In 2009[15] we recommended that AHS improve controls for drug purchases by ensuring they are properly approved and duties are appropriately segregated. We made this recommendation because we had found that none of the invoices we tested had been approved by the individuals authorized to perform this function. We also found that the same individuals were also performing the purchaser and receiving functions.

Criteria: the standards for our audit

AHS should:

- approve drug purchases in accordance with the delegation of authority
- have controls in place to ensure that the same individual cannot order, receive and approve purchases
- have additional monitoring in place when, due to size of the facility, duties cannot be segregated

Our audit findings

KEY FINDING

While invoices are now being properly approved, monitoring of purchases needs to be improved for those cases where AHS cannot maintain a segregation of duties between purchasers and receivers.

We found that out of a sample of 40 items tested, all drug purchases were appropriately approved. However, in that sample, we found two instances where AHS expected that segregation of duties would be maintained but it was not. We also found two instances where we were unable to obtain appropriate documentation to determine if the appropriate segregation of duties took place.

AHS has developed a report that identifies the purchases made for those locations when segregation of duties is not maintained. The compensating control is for management to review the report. We examined one report but did not find any evidence indicating the report had been reviewed.

We will consider this recommendation implemented when AHS has adequate controls in place to ensure there is sufficient review in cases where segregation of duties is not maintained.

Implications and risks if recommendation not implemented

AHS may incur inappropriate purchases and financial losses.

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[15] *Report of the Auditor General of Alberta—October 2009*, page 278.

OUTSTANDING RECOMMENDATIONS

MINISTRY AND DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Electronic health records: User access management—October 2009, p. 80
We recommend that the Department of Health ensure that its user access management policies are followed and that user access to health information is removed when access privileges are no longer required.

Department's accountability for the Primary Care Networks program—July 2012, no. 5, p. 35
We recommend that the Department of Health:

- establish clear expectations and targets for each of the PCN program objectives
- develop systems to evaluate and report performance of the PCN program

Engagement and accountability to Primary Care Network patients—July 2012, no. 7, p. 42
We recommend that the Department of Health proactively inform Albertans which Primary Care Network they have been assigned to, and what services are available through their PCN.

Centralized support by the department—July 2012, no. 8, p. 43
We recommend that the Department of Health improve its systems to provide information and support to help Primary Care Networks and Alberta Health Services achieve PCN program objectives.

Department's systems to oversee Primary Care Networks—July 2012, no. 9, p. 48
We recommend that the Department of Health improve its systems for oversight of Primary Care Networks by:

- obtaining assurance that PCNs are complying with the financial and operating policies of the PCN program
- ensuring PCN surplus funds are used in a timely and sustainable manner

Oversight and accountability for infection prevention and control—October 2013, no. 1, p. 22
We recommend that the Department of Health:

- determine clear implementation responsibilities of each partner identified under the infection prevention and control strategy and the hand hygiene strategy
- improve its systems to monitor implementation progress and publicly report on the success of both strategies

Chronic disease management: Improve delivery of chronic disease management services—September 2014, no. 1, p. 11
We recommend that the Department of Health improve the delivery of chronic disease management services in the province by:

- defining the care services it expects physicians, Primary Care Networks and Alberta Health Services to provide to individuals with chronic disease
- requesting family physicians to deliver comprehensive team-based care to their patients with chronic disease, through a Primary Care Network or appropriate alternative
- establishing processes to assess the volumes, costs and, most importantly, the results of chronic disease management services delivered by the healthcare providers it funds
- facilitating secure sharing of patients' healthcare information among authorized providers
- strengthening its support for advancing chronic disease management services, particularly among family physicians where the need for better systems and information is most critical

Chronic disease management: Improve delivery of pharmacist care plan initiative —September 2014, no. 7, p. 32

We recommend that the Department of Health improve the delivery of its pharmacist care plan initiative by:

- establishing a formal process to ensure pharmacists integrate their care plan advice with the care being provided by a patient's family physician and care team
- strengthening claims administration and oversight, including requiring pharmacists to submit diagnostic information showing patients qualify for a care plan, and making care plans subject to audit verification by Alberta Blue Cross
- setting expectations and targets for pharmacists' involvement in care plans and evaluating the effectiveness of their involvement on an ongoing basis

Chronic disease management: Strengthen electronic medical records systems —September 2014, no. 8, p. 37

We recommend that the Department of Health strengthen support to family physicians and care teams in implementing electronic medical record systems capable of:

- identifying patient-physician relationships and each patient's main health conditions and risk factors
- tracking patient care plans and alerting physicians and care teams when medical services are due, and health goals or clinical targets are not met
- appropriately and securely sharing patient health information between authorized healthcare providers
- reporting key activity and outcome information for selected patient groups (e.g., diabetics) as the basis for continuous quality improvement

Chronic disease management: Provide individuals access to their personal health information— September 2014, no. 9, p. 41

We recommend that the Department of Health provide individuals with chronic disease access to the following personal health information:

- their medical history, such as physician visits, medications and test results
- their care plan, showing recommended tests, diagnostic procedures and medications, including milestone dates and targets set out in the plan

Crown's right of recovery of healthcare costs from motor vehicle accidents: Clarify objectives of collecting revenue and prepare supporting rationale—October 2014, no. 3, p. 37

We recommend that the Department of Health:

- publicly articulate its objectives in setting the aggregate assessment
- report the extent to which the aggregate assessment recovers the department's calculation of healthcare costs caused by motor vehicle accidents

We also recommend that the Department of Health obtain additional information to demonstrate that the amount proposed for the aggregate assessment is the appropriate amount that should be charged given the competing objectives.

Crown's right of recovery of healthcare costs from motor vehicle accidents: Calculating the aggregate assessment—October 2014, no. 4, p. 38

We recommend that the Department of Health review the methodology it uses in the calculation of the aggregate assessment and put a process in place to periodically check whether the estimate calculated is a reasonable approximation of the Crown's associated healthcare costs.

Seniors care in long-term care facilities: Oversight at the provincial level —October 2014, no. 13, p. 91

We recommend that the Department of Health:

- clearly define and separate its role and responsibilities from those of AHS in monitoring and managing long-term care service delivery
- improve public reporting on what results the provincial long-term care system is expected to achieve and whether it is achieving them
- finish the review of the continuing care health service standards
- implement a mechanism for timely analysis and action on the accommodation cost data

Systems to manage the delivery of mental health services: Use action plan and progress reporting to implement strategy—July 2015, no. 6, p. 63

We recommend that the Department of Health:

- use an action plan to implement the strategy for mental health and addictions
- monitor and regularly report on implementation progress

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Various departments—Contracting: Improve contract policy and demonstrate compliance —October 2014, no. 9, p. 58

We recommend that the Department of Health:

- upgrade its contract policy to ensure its branches consider and document whether or not a project is a phase of an overall project requiring a competitive bid
- ensure the contract policy describes the information that should be documented to support sole sourcing
- improve its processes to demonstrate it complies with its contract policy

HEALTH AND AGRICULTURE AND FORESTRY

The following recommendation is outstanding and not yet ready for a follow-up audit:

Food safety: Accountability—October 2013, no. 5, p. 59
(Originally October 2006, no. 12, p. 105; repeated as October 2009, no. 13, p. 114)

We again recommend that the Departments of Health and Agriculture and Forestry improve reporting on food safety in Alberta.

HEALTH, AGRICULTURE AND FORESTRY, AND ALBERTA HEALTH SERVICES

The following recommendation is outstanding and not yet ready for a follow-up audit:

Food safety: Eliminating gaps in food safety inspection coverage—October 2009, no. 12, p. 111
(Originally October 2006, vol. 1, p. 102)

We again recommend that Alberta Health Services and the Departments of Health and Agriculture and Forestry, working with federal regulators, eliminate the existing gaps in food safety coverage in Alberta. Gaps include:

- mobile butchers
- consistently administering the Meat Facility Standard
- coordinating inspections in the "non-federally registered" sector

DEPARTMENT OF HEALTH AND ALBERTA HEALTH SERVICES

The following recommendations are outstanding and not yet ready for follow-up audits:

Chronic disease management: Improve support of patient-physician relationships —September 2014, no. 2 & 3, p. 18

We recommend that the Department of Health improve its support of patient-physician relationships by:

- requesting all family physicians establish a process to identify their patient panels and which of those patients have chronic disease, and providing them with healthcare data to help them do so
- determining what it considers to be an effective care team size and composition, and working with family physicians, Primary Care Networks and other providers to help build teams to this level

We recommend that Alberta Health Services identify individuals with chronic disease who do not have a family physician and actively manage their care until they can be linked with a family physician.

Chronic disease management: Improve physician care plan initiative —September 2014, no. 5 & 6, p. 26

We recommend that the Department of Health improve its physician care plan initiative by:

- defining its expectations for what care plans should contain and how they should be managed by physicians and care teams
- setting targets for care plan coverage and evaluating the effectiveness of care plans on an ongoing basis
- strengthening care plan administration by ensuring that claims identify qualifying diagnoses, and that care plan billings by individual physicians are reasonable

We recommend that Alberta Health Services coordinate its services to patients with chronic disease with the care plans developed by family physicians and care teams.

ALBERTA HEALTH SERVICES

The following recommendations are outstanding and not yet ready for follow-up audits:

Contracting practices: Internal controls—November 2006, no. 1, p. 14

We recommend that Alberta Health Services management improve controls over contracting by:

- ensuring adequate segregation of duties exists over the contracting process
- monitoring and verifying contractors' compliance with contract terms and conditions

Contracting practices: Board governance—November 2006, no. 3, p. 17

We recommend that the Alberta Health Services Board, at least annually, receive reports from management on the design and effectiveness of the Alberta Health Services internal controls.

Capital project monitoring systems—October 2009, no. 32, p. 271

We recommend that Alberta Health Services improve the efficiency and effectiveness of its financial capital project monitoring and reporting systems and processes by:

- implementing common systems, policies and procedures to track and monitor key financial information
- providing relevant, timely and accurate information to executive management and the audit and finance committee

Approval of drug purchases—October 2009, p. 278
We recommend that Alberta Health Services improve controls for drug purchases by ensuring they are properly approved and duties are appropriately segregated.

AHS accountability for Primary Care Networks—July 2012, no. 6, p. 40
We recommend that Alberta Health Services within the context of its provincial primary healthcare responsibilities:

- define goals and service delivery expectations for its involvement in PCNs
- define performance measures and targets
- evaluate and report on its performance as a PCN joint venture participant

Fees and charges—October 2012, no. 25, p. 123
We recommend that Alberta Health Services:

- reinforce its admissions policies to ensure consistent application
- review its controls over the processes that generates fees and charges revenue, to ensure they are appropriately designed, consistent across regions and aligned with current policies

Controls over expenses—February 2013, no. 1, p. 24
We recommend that Alberta Health Services tighten its controls over expense claims, purchasing card transactions and other travel expenses by:

- improving the analysis and documentation that support the business reasons for—and the cost effectiveness of—these expenses
- improving education and training of staff on their responsibilities for complying with policies
- monitoring expenses and reporting results to the board

Prevention and control of antibiotic-resistant organisms—October 2013, no. 3, p. 31
We recommend that Alberta Health Services improve its systems to manage risk posed by antibiotic-resistant organisms at hospitals, by:

- developing an evidence-informed approach for evaluating and aligning antibiotic-resistant organism policies and procedures in hospitals
- developing an approach to provide antibiotic stewardship in hospitals across the province

Hand hygiene practices—October 2013, no. 4, p. 38
We recommend that Alberta Health Services improve its systems for hand hygiene by:

- clarifying responsibility and accountability for improving hand hygiene compliance across hospitals
- using available data, on a risk-focused basis, to identify hospital units with poor compliance and take appropriate remedial action
- strengthening the infection prevention and control orientation and training provided to hospital healthcare workers

Contracted surgical facilities—July 2014, no. 6, p. 58
(Originally October 2001, p. 135)
We again recommend that Alberta Health Services strengthen its process to monitor the performance of contracted non-hospital surgical facilities.

Chronic disease management: Improve AHS chronic disease management services —September 2014, no. 4, p. 22

We recommend that Alberta Health Services improve its chronic disease management services by:

- assessing the total demand for chronic disease management services across Alberta
- developing evidence to support decisions on how services provided by Alberta Health Services, family physicians, Primary Care Networks and Family Care Clinics should be integrated
- setting provincial objectives and standards for its chronic disease management services
- establishing systems to measure and report the effectiveness of its chronic disease management services

Seniors care in long-term care facilities: Monitoring care at the resident level —October 2014, no. 11, p. 84

We recommend that Alberta Health Services improve the design of its current monitoring activities. AHS should:

- develop a system to periodically verify that facilities provide residents with an adequate number and level of staff, every day of their operation
- develop a system to periodically verify that facilities deliver the right care every day by implementing individual resident care plans and meeting basic needs of residents

Seniors care in long-term care facilities: Managing performance of long-term care facilities —October 2014, no. 12, p. 88

We recommend that Alberta Health Services improve its system to monitor and manage performance of long-term care facilities. AHS should:

- clearly define which program area within AHS is responsible for managing performance of individual facilities
- establish a formal mechanism to use all available compliance data to review periodically the overall performance of each facility, and initiate proactive compliance action with facilities based on the level of risk to health and safety of residents
- establish a formal mechanism to escalate compliance action for higher risk facilities

Follow processes for hiring and termination of executives—October 2014, no. 16, p. 136

We recommend that Alberta Health Services follow its human resource processes for hiring and termination of executives.

Information technology control policies and processes—October 2014, no. 17, p. 137 (Originally October 2009, no. 29, p. 262)

We again recommend that Alberta Health Services:

- develop an information technology control framework, including appropriate risk management processes and controls, for the management of its information technology resources
- monitor compliance with security policies, implementing effective change management processes and improving passwords controls

Systems to manage the delivery of mental health services: Integrate mental health service delivery and eliminate gaps in service—July 2015, no. 7, p. 67
We recommend that Alberta Health Services for its own community and hospital mental health and addictions services:

- work with physicians and other non-AHS providers to advance integrated care planning and use of interdisciplinary care teams where appropriate for clients with severe and persistent mental illness who need a comprehensive level of care
- improve availability of mental health resources at hospital emergency departments
- improve its system to monitor and ensure community mental health clinics comply with AHS's expectations for treatment planning and case management
- improve its process to identify and evaluate good operational practices used by local mental health and addictions staff, and deploy the best ones across the province

Systems to manage the delivery of mental health services: Improve information management in mental health and addictions—July 2015, no. 8, p. 75
We recommend that Alberta Health Services make the best use of its current mental health and addictions information systems by:

- providing authorized healthcare workers within all AHS sites access to AHS mental health and addictions clinical information systems
- strengthening information management support for its mental health treatment outcomes measurement tools

Systems to manage the delivery of mental health services: Complete assessment and develop waitlist for Albertans who need community housing supports—July 2015, no. 9, p. 79
We recommend that Alberta Health Services in supporting the work of the cross-ministry housing planning team established under the mandate of the Minister of Seniors:

- complete its assessment and report on gaps between supply and demand for specialized community housing support services for mental health and addictions in the province
- develop a waitlist management system to formally assess the housing support needs of AHS's mental health hospital and community patients and coordinate their placement into specialized community spaces funded by AHS

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Contract documentation—October 2008, p. 312
We recommend that Alberta Health Services develop and implement a sole-sourcing policy for contracts and ensure that sole sourcing is clearly documented and justified. We also recommend Alberta Health Services ensure contract amendments, including changes to deliverables, are documented and agreed to by both parties.

Cleaning, disinfection and sterilization of medical devices—October 2013, no. 2, p. 27
We recommend that Alberta Health Services establish clear oversight and accountability for medical device reprocessing within and across zones to ensure consistent processes and accountability for reprocessing activities in Alberta.

Human Services

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Human Services in this report.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve access control procedures—October 2014, no. 18, p. 151
We recommend that the Department of Human Services improve access control processes for all its information systems, to ensure:

- user access to application systems and data is properly authorized
- user access is disabled promptly when employees leave their employment or role

OFFICE OF THE PUBLIC GUARDIAN AND TRUSTEE

The following recommendations are outstanding and not yet ready for follow-up audits:

Supervisory review of client files—February 2013, no. 2, p. 42
We recommend that the Office of the Public Guardian and Trustee improve its file management processes to ensure all client files are subject to adequate supervisory review.

Improve and follow policies—February 2013, no. 4, p. 45
We recommend that the Office of the Public Guardian and Trustee:

- review and assess whether its policies are appropriate, and procedures are adequate to mitigate the risk that client assets could be misappropriated or otherwise mismanaged
- improve its processes for ensuring compliance with policies and procedures

Documentation—February 2013, no. 6, p. 48
We recommend that the Office of the Public Guardian and Trustee improve its processes for ensuring client files are appropriately documented, including adequate documentation of supervisory review and internal audit.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Internal audit role—February 2013, no. 3, p. 42
We recommend that the Office of the Public Guardian and Trustee strengthen the role of its internal audit, ensuring it has adequate authority and independence to effectively perform its function.

Segregation of duties—February 2013, no. 5, p. 47
We recommend that the Office of the Public Guardian and Trustee strengthen its processes for the approval and payment of client expenses or disbursements.

Infrastructure

SUMMARY

DEPARTMENT

Matters from the current audit

There are no new recommendations to the Department of Infrastructure in this report.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Infrastructure needs: Process to prioritize projects—October 2007, no. 4, vol. 1, p. 57
We recommend that the Department of Infrastructure improve the process to evaluate proposed infrastructure projects that ministries submit.

Infrastructure needs: Improving current information—October 2007, no. 5, vol. 1, p. 59
We recommend that the Department of Infrastructure, working with the Treasury Capital Planning Committee, examine how the current information provided to Treasury Board and Finance can be improved.

Infrastructure needs: Deferred maintenance—October 2010, no. 8, p. 89
(Originally October 2007, no. 2, p. 49)
We again recommend that the Department of Infrastructure, in consultation with departments, develop objectives, timelines and targets for reducing deferred maintenance, and include information on deferred maintenance in the province's Capital Plan.

Infrastructure needs: Maintaining assets over their life—October 2010, no. 9, p. 92
(Originally October 2007, no. 3, p 54)
We again recommend that the Department of Infrastructure establish a process that enables public infrastructure assets to be properly maintained over their life.

Innovation and Advanced Education

SUMMARY

DEPARTMENT

Innovation and Advanced Education—For-profit and cost recovery ventures at post-secondary institutions—see page 21

We recommend that the Department of Innovation and Advanced Education implement an integrated enterprise risk management approach—see page 124.

The department implemented our recommendations to:
- resolve outstanding sector accounting issues—see page 125
- improve financial reporting process—see page 126
- identify best practices, work with and develop guidance for post-secondary institutions to implement effective enterprise risk management systems—see page 126

Innovation[1]

There are no new recommendations in this report.

Advanced Education[2]

There are no new recommendations in this report.

POST-SECONDARY INSTITUTIONS

Innovation and Advanced Education—IT system implementation at Olds College—see page 29

IT governance, strategic planning and project management at Athabasca University follow-up—see page 57

University of Alberta implemented our recommendation to improve systems:
- to ensure compliance with legislation—see page 127
- over costs for internal working sessions and hosting guests—see page 128

University of Calgary implemented our recommendation to develop an integrated enterprise risk management approach—see page 128.

This report includes an update on the report card on four universities' internal controls over financial reporting, together with comparative assessments from our 2014 and 2013 audits. Our March 2015 report included the results of our audits at the colleges, technical institutions, MacEwan University and Mount Royal University.

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[1] Innovation in this chapter includes Alberta innovates corporations (Bio Solutions, Energy and Environment Solutions, and Technology Futures) and Alberta Enterprise Corporation.

[2] Advanced Education in this chapter includes University of Alberta, University of Calgary, University of Lethbridge, and Athabasca University.

To govern effectively, boards need accurate and timely financial information throughout the year, not just at year end. To manage effectively, management needs the same information. We see a direct correlation between a strong year-end process to prepare financial statements and the ability to prepare quality financial information throughout the year. Strong, sustainable processes improve management's decision making ability and provide opportunities to use results analysis to communicate to Albertans the institution's performance and accountability for results. The Minister of Innovation and Advanced Education, through the department, must ensure the boards of governors of post-secondary institutions hold management accountable for sustaining strong internal control environments and improving identified control weaknesses in a reasonable period of time.

Consistent with our prior report cards, we evaluated the following key indicators of effective financial processes and internal controls:

- the time it took institutions to prepare complete and accurate year-end financial statements
- the quality of draft financial statements we received, including the number of errors our audit found
- the number and type of current and outstanding recommendations

A university could have a yellow or red status yet still receive an unqualified opinion on its financial statements as management can correct errors and disclosure deficiencies during the audit process. The number of errors and disclosure deficiencies we find in the draft financial statements indicates how effective financial controls are for preparing accurate financial statements.

Our conclusion on the status of outstanding recommendations considers not just the number, but also the age and nature of the outstanding recommendations. A summary of outstanding recommendations by institution is on page 130. Six of the 33 outstanding recommendations to institutions are aged greater than three years as at October 1, 2015.

Effective control environments include clear policies, well designed processes and controls to implement and monitor compliance with policies and secure information systems to provide timely and accurate financial and non-financial information to manage and govern the institutions. Recommendations not implemented promptly erode the effectiveness of the institution's control environment. Weak control environments impact the quality of decisions made by management and the board of governors. This can result in an institution not achieving its goals by operating in a cost-effective manner and managing operating risks.

The report card

- ◆ Significant improvement is required.
- △ Improvement is required, but not to the same extent as the red items. Yellow items may or may not be associated with a management letter recommendation. They represent areas where an institution can improve, as opposed to areas that require significant, immediate attention.
- ● We have not identified significant weaknesses in the control environment.

INSTITUTION	FINANCIAL STATEMENTS PREPARATION		OUTSTANDING RECOMMENDATIONS
	Accuracy	Timeliness	
Athabasca University			
2015	●	●	◆
2014	●	●	◆
2013	●	●	◆
University of Alberta			
2015	●	●	●
2014	●	●	●
2013	●	●	●
University of Calgary			
2015	●	●	●
2014	●	●	●
2013	●	●	●
University of Lethbridge			
2015	●	●	●
2014	●	●	●
2013	●	●	●

In concluding on our report card, we note the following:

Financial statements preparation

The four universities continue to sustain effective processes to prepare timely and accurate financial statements. The universities prepare clear documentation and support for financial reporting conclusions that significantly enhance the universities' financial reporting preparation and internal controls throughout the fiscal year. The universities are continuously working to improve financial reporting systems and management's decision making ability. Sustaining strong financial reporting systems will also increase opportunities to use results analyses to better communicate the universities' performance and accountability for results.

We issued unqualified audit opinions on the financial statements of all the four universities.

Outstanding recommendations

There were no new recommendations to the four universities.

Athabasca University implemented our four recommendations relating to IT governance and strategic planning—see page 57. The university now has only one of its three outstanding recommendations older than three years. Management must prioritize implementing our 2010 recommendation to establish IT resumption capabilities,[3] which is critical to the university's mandate to reliably provide accessible on-line learning. The university would likely not recover significant IT systems in a reasonable period of time if a system failure occurs.

Starting in 2013, we recommended to all post-secondary institutions to improve systems to comply with legislation.[4] All four universities, working collaboratively with other post-secondary institutions, plan to implement the recommendation in two phases. The institutions implemented a centralized process in 2014 to identify existing and recently changed or newly enacted legislation impacting post-secondary institutions. Each institution is now using that information to integrate compliance with legislation in its risk management systems and processes. The University of Alberta implemented the recommendation by adequately completing both phases of its implementation plan. The University of Calgary, University of Lethbridge and Athabasca University are in the process of completing phase two of their plans.

Both the University of Alberta and University of Calgary each implemented one other recommendation during the year.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Enterprise risk management framework

Background

Enterprise risk management is a continuous and proactive process to understand, manage and communicate risks from an organization-wide perspective. Risk management involves identifying risks relevant to the entity, assessing their likelihood and potential impact, implementing risk mitigation strategies, monitoring risks and mitigation strategies, and reporting to senior management.

RECOMMENDATION 15: IMPROVE ENTERPRISE RISK MANAGEMENT

We recommend that the Department of Innovation and Advanced Education implement an integrated enterprise risk management framework to identify and mitigate relevant risks.

Criteria: the standards for our audit

An effective enterprise risk management framework involves:

- identifying and prioritizing entity-wide risks associated with achieving the department's objectives
- assessing and ranking risks, including likelihood and potential impact of the risks
- defining roles and responsibilities for risk management
- designing and implementing programs or procedures for identified risks
- updating risk assessments as changes occur
- monitoring and evaluating programs or procedures to mitigate risks
- reporting to senior management on actions to reduce identified risks to an acceptable level

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[3] *Report of the Auditor General of Alberta—October 2010*, no.10, page 111 (repeated October 2013, no. 9, page 96).

[4] *Report of the Auditor General of Alberta—October 2013*, page 94.

Our audit findings

KEY FINDING

The department has not finalized its formal enterprise risk management framework.

Department management began developing a risk assessment framework in 2008 but stopped when the department underwent restructuring in fiscal 2012. Department management subsequently performed a preliminary risk assessment and drafted a document outlining the department's current and future risks in November 2013. Department senior management has not yet approved this preliminary assessment. The department may use this preliminary assessment document, if approved, to restart the development and implementation of a complete enterprise risk assessment framework.

Implications and risks if recommendation not implemented

Without an effective enterprise risk management system, the department will not identify and mitigate its risks efficiently and effectively.

Matters from prior audit

Resolve outstanding sector accounting issues—implemented

Our audit findings

The department implemented our 2012[5] recommendation, working with the controller's office and public post-secondary institutions, to develop a process for efficient resolution of the sector's accounting issues relating to:

- assessing the business, legal and financial impacts of partnerships, joint ventures and other business arrangements
- transitioning to new accounting standards
- resolving legislative charitable fund-raising disclosures non-compliance at post-secondary institutions

Government partnerships, joint ventures and other business arrangements

The department:

- finished compiling a comprehensive list of its partnerships, joint ventures and other business arrangements and concluded on whether it controls or has significant influence on the identified entities
- established and disclosed a threshold for consolidating controlled entities in the ministry financial statements
- participated in developing legislative compliance guidelines to help post-secondary institutions manage legislative risks, particularly when they incorporate new entities
- assessed whether the Lieutenant Governor in Council approval was required to incorporate entities that are considered controlled, individually or collectively, by institutions

We examined management's processes and found them adequate.

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[5] *Report of the Auditor General of Alberta—October 2012,* no.17, pages 101-103.

Pro forma financial statements

The department worked with institutions as they transitioned to financial reporting under public sector accounting standards in 2013 by:

- forming a steering committee to prioritize, assess, analyze and recommend solutions for significant areas that impact institutions in financial reporting
- developing pro forma financial statements that included corporate accounting policies
- developing an implementation plan to set objectives, deliverables, timelines and procedures for institutions
- developing a plan to assess the impacts and changes on the ministry consolidated financial statements

We examined management's processes and found them adequate.

Charitable fundraising disclosures

The department worked with the Department of Service Alberta to examine if required disclosures under the *Charitable Fundraising Regulation* are relevant and applicable to post-secondary institutions. The departments concluded that the disclosure requirements are repetitive and unnecessary. The Department of Service Alberta's amendment to the *Charitable Fundraising Act* to eliminate the disclosure requirements received royal assent on May 14, 2014.

Improved financial reporting processes—implemented

Our audit findings

The department implemented our 2012[6] recommendation to improve its financial reporting processes by:

- documenting processes and controls to avoid processing errors and incomplete financial records
- developing year-end checklists outlining roles, responsibilities and timelines for finance staff to prepare supporting financial reporting documents
- increasing its staff capacity and training for year-end reporting
- coordinating post-secondary institutions to use common accounting software to streamline the ministry consolidation process

The process improvements resulted in better analyses and conclusions to support the ministry's significant year-end financial statements balances. Management corrected individually immaterial errors identified in our audit of the consolidated financial statements. Management is considering further process improvements to the consolidation, which we will examine during our attest audit of the ministry consolidated financial statements.

Cross institutional recommendation: Enterprise risk management—implemented

Our audit findings

The department implemented our 2010[7] recommendation (through the Campus Alberta Strategic Directions Committee) to work with post-secondary institutions to identify best practices and develop guidance for them to implement effective enterprise risk management systems.

The department and post-secondary institutions created a Campus Alberta Risk and Assurance Committee in 2011 to provide guidance and share best practices on developing and implementing enterprise risk management. The committee organized training to all institutions that included:

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[6] *Report of the Auditor General of Alberta—October 2012*, no.16, page 100-101.

[7] *Report of the Auditor General of Alberta—April 2010*, no.17, page 158.

- risk oversight
- role, structure and operations of an audit committee
- role of management in support of the audit committee
- audit committee effectiveness and the audit process
- issues and challenges within public sector audit committees

The committee holds an annual symposium focusing on enterprise risk related themes. We examined the committee's terms of reference as well as the emergency and campus security policies and guidelines, and the risk management report template that the committee developed. We found these documents to be adequate. The department developed an agreement that institutions can use to form partnerships with other institutions or organizations to assist one another. The department also actively participated in the development of guidelines for legislative compliance to help post-secondary institutions manage legislative risks.

INNOVATION

There are no new recommendations to the ministry's three Alberta innovates corporations and Alberta Enterprise Corporation.

POST-SECONDARY INSTITUTIONS

THE UNIVERSITY OF ALBERTA

Matters from prior audit

Improve systems to ensure compliance with legislation—implemented

Our audit findings

The university implemented our 2013[8] recommendation to implement systems to:

- understand the legislation with which they must comply
- develop appropriate policies, procedures and controls to ensure compliance with legislation
- monitor and report non-compliance to senior management and board audit committees

Management developed a legislative compliance framework outlining the processes for:

- identifying relevant legislation applicable to the university, assessing the impact of the legislation based on risks, and maintaining a current list of applicable legislation
- developing risk-based compliance procedures which include assigning and communicating roles and responsibilities to ensure legislative compliance
- reviewing the reporting mechanism for compliance
- monitoring and documenting compliance with legislation, and developing plans to remediate non-compliance, if any
- ensuring timely communication with senior management and reporting to the board on legislative compliance

The university participates in a sector-wide initiative which utilizes an external legal firm to identify relevant and newly proclaimed legislation relevant to institutions. University management uses this information to assess the university's compliance with the legislation and integrates that assessment into the university's risk management processes.

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[8] *Report of the Auditor General of Alberta—October 2013*, page 94.

Management enhanced the university's existing risk management processes by establishing a legislation register. The register documents the functional units impacted by legislation and the managers within the units responsible for ensuring compliance with the legislation. Management provides their compliance assertions to the university's enterprise risk management committee. The committee compiles the information and produces quarterly summary risk reports based on their guidelines for reporting significant risks to the board of governors audit committee. The committee also provides a report annually to the audit committee, which summarizes all compliance items for the year.

We examined the 2014–2015 third quarter compliance report provided to the board audit committee and management's assertion that the university is in compliance with applicable legislation. We also examined the June 2014 and April 2015 annual compliance reports to the audit committee. We did not identify during our attest audit of the university's fiscal 2015 consolidated financial statements any significant legislation related to financial reporting that the committee failed to consider in their reports.

Based on our examination, processes to ensure compliance with legislation are adequate.

Systems over costs for internal working sessions and hosting guests—implemented

Our audit findings

The university implemented our 2010 recommendation[9] to follow the university's policies and processes for employee expense claims and corporate credit cards.

Management communicated through internal correspondence to all staff the importance of complying with the university's expense claims policies and procedures. Management also ensured that itemized detailed supporting documentation was included with all expense claims before payment approval. The university's internal audit performed sample testing of the compliance with the university travel and expense policies. We tested a sample of expense claims and examined internal audit's assessment and identified no differences that would indicate the improved process was ineffective.

THE UNIVERSITY OF CALGARY

Matters from prior audit

Enterprise risk management—implemented

Our audit findings

The university implemented our 2011 recommendation[10] to develop an integrated enterprise risk management approach to identify and manage the risks that impact the university as a whole.

Management implemented an integrated approach by:
- developing an enterprise risk management framework and policy
- developing risk registers that identify and rank risks
- allocating risk mitigation activities to risk owners
- providing periodic risk mitigation reports to the audit committee

We examined a sample of risk registers, risk owners' reports to board committees on their risk mitigation processes and the periodic reports on the university's risk management activities that the audit committee received. We concluded that the university's risk management approach is adequate.

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[9] *Report of the Auditor General of Alberta—April 2010*, page167.
[10] *Report of the Auditor General of Alberta—November 2011*, no. 5, page 67.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Develop strategic plan and accountability framework—July 2013, no. 6, p. 48

We recommend that the Department of Innovation and Advanced Education (through the Campus Alberta Strategic Directions Committee):

- develop and communicate a strategic plan that clearly defines the minister's expected outcomes for Campus Alberta, initiatives to achieve those outcomes, resources required and sources of funding
- develop relevant performance measures and targets to assess if the outcomes are being achieved
- publicly report results and the cost of achieving them
- review and clarify the accountability structures for governing collaborative initiatives

Develop processes and guidance to plan, implement and govern collaborative projects —July 2013, no. 7, p. 51

We recommend that the Department of Innovation and Advanced Education (through the Campus Alberta Strategic Directions Committee) develop systems and guidance for institutions to follow effective project management process for collaborative initiatives.

INNOVATES

Alberta Innovates—Energy and Environmental Solutions

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improve financial reporting process—October 2014, no. 19, p. 159

We recommend that Alberta Innovates—Energy and Environment Solutions:

- improve its processes to identify contributions that funders have restricted
- ensure it has incurred eligible expenses before recording the same amount of contributions as revenue in financial statements

MULTI-INSTITUTIONAL RECOMMENDATION

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—October 2013, p. 94

We recommend that the post-secondary institutions[11] implement systems to:

- understand what legislation they must comply with
- develop appropriate policies, procedures and controls to ensure compliance with legislation
- monitor and report non-compliance to senior management and board audit committees

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[11] As a result of our assessment, we made this common recommendation to all colleges and universities as part of our February 2013, October 2013 and February 2014 reports.

ADVANCED EDUCATION

	OUTSTANDING RECOMMENDATIONS		
Institution	**3+ Years***	**Other**	**Total**
Alberta College of Art + Design	-	5	5
Athabasca University	1	2	3
Bow Valley College	-	1	1
Grande Prairie Regional College	-	1	1
Keyano College	-	1	1
Lakeland College	-	1	1
Lethbridge College	-	1	1
MacEwan University	1	1	2
Medicine Hat College	-	1	1
Mount Royal University	-	1	1
NorQuest College	-	1	1
Northern Alberta Institute of Technology	-	1	1
Northern Lakes College**	-	2	2
Olds College**	1	1	2
Portage College	2	2	4
Red Deer College	-	2	2
Southern Alberta Institute of Technology	-	1	1
University of Alberta	-	-	-
University of Calgary	1	1	2
University of Lethbridge	-	1	1
Total Outstanding	**6**	**27**	**33**
Ready for follow-up audit***	4	13	
Not yet ready for audit	2	14	

* Originally issued in October 2012 report and earlier

** Outstanding recommendation to improve financial reporting processes

*** Based on management representations to October 1, 2015

ALBERTA COLLEGE OF ART + DESIGN

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Improve controls over contracts—February 2013, no. 9, p. 64

We recommend that Alberta College of Art + Design improve controls over contracts by:

- developing, documenting and enforcing contract procedures
- standardizing contracts with templates that ACAD's legal counsel approves
- developing systems to track and monitor all contracts prepared by all its departments

Implement a disaster recovery plan—February 2013, no. 10, p. 65

We recommend that Alberta College of Art + Design implement and test a disaster recovery plan.

Strengthen controls over procurement cards transactions—February 2013, no. 11, p. 66

We recommend that Alberta College of Art + Design strengthen its processes over the authorization, review and approval of procurement card transactions.

Improve controls over expense claims and purchase card transactions
—February 2014, no. 4, p. 76
We recommend that Alberta College of Art + Design strengthen its controls over expense claims and purchase card transactions by:
- improving documentation to support the business reason for and cost effectiveness of expenses
- improving staff training on their responsibilities for complying with policies monitoring expenses and reporting results to the board

ATHABASCA UNIVERSITY

The following recommendations are outstanding and not yet ready for follow-up audits:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Improve procedures to monitor and report access and security violations
—October 2013, no. 8, p. 95
We recommend that Athabasca University formalize its access and security monitoring procedures to:
- detect and assess security threats to critical information systems
- report access and security violations to senior management
- identify and resolve the root causes of security threats and violations

Establish information technology resumption capabilities—October 2013, no. 9, p. 96
(Originally October 2010, no. 10, p. 111)
We again recommend that Athabasca University:
- assess the risks and take the necessary steps to establish appropriate off-site disaster recovery facilities that include required computer infrastructure to provide continuity of critical information technology systems
- complete and test its existing disaster recovery plan to ensure continuous services are provided in the event of a disaster

BOW VALLEY COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

GRANDE PRAIRIE REGIONAL COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

KEYANO COLLEGE

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

LAKELAND COLLEGE

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

LETHBRIDGE COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

MACEWAN UNIVERSITY

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Systems over costs for internal working sessions and hosting guests—April 2010, p. 165
We recommend that MacEwan University:

- implement policies and guidance on appropriate expenses for events related to internal working sessions and for hosting guests
- follow its policies and processes for employee expense claims and corporate credit cards

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

MEDICINE HAT COLLEGE

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

MOUNT ROYAL UNIVERSITY

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

NORQUEST COLLEGE

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

NORTHERN ALBERTA INSTITUTE OF TECHNOLOGY

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

NORTHERN LAKES COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improve processes for year-end financial report—February 2014, no. 9, p. 87
We recommend that Northern Lakes College review the adequacy of its financial statements closing process and improve its ability to produce timely and accurate financial statements.

OLDS COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improve systems on financial year-end reporting—February 2013, no. 29, p. 95
(Originally April 2011, p. 68; repeated as March 2012, no. 8, p. 27)
We again recommend that Olds College further improve its processes and controls over year-end financial reporting.

PORTAGE COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Follow access controls and remove access promptly—March 2012, no. 13, p. 32
We recommend that Portage College ensure that employees follow its system user-access control procedures and that management promptly removes access privileges when staff leave.

Develop and test a business resumption plan—March 2012, no. 14, p. 33
We recommend that Portage College fully develop and test a business resumption plan to ensure that it can resume IT services in a reasonable time after a disaster.

Improve information system change management—February 2013, no. 31, p. 98
We recommend that Portage College develop and implement formal change management policies and control procedures to ensure all changes to systems and applications within the computing environment are implemented in a consistent and controlled manner.

RED DEER COLLEGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improve general computer control environment—February 2013, no. 32, p. 100
We recommend that Red Deer College improve its general computer control environment by:

- finalizing its risk assessment process and implementing a comprehensive IT control and governance framework for its key processes
- implementing appropriate security over information and information technology assets
- managing changes to computer programs
- testing its disaster recovery plan and then assessing its adequacy

SOUTHERN ALBERTA INSTITUTE OF TECHNOLOGY

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

UNIVERSITY OF ALBERTA

There are no outstanding recommendations to the University of Alberta.

UNIVERSITY OF CALGARY

The following recommendations are outstanding and not yet ready for follow-up audits:

Remove users' access privileges promptly—October 2012, no. 21, p. 112
We recommend that the University of Calgary:

- define an acceptable timeframe to disable or remove users from the application and the network
- document, communicate and consistently follow a process to deactivate users from the university's information technology systems within the defined timeframe

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

UNIVERSITY OF LETHBRIDGE

The following recommendation is outstanding and not yet ready for a follow-up audit:

Improve systems to ensure compliance with legislation—see multi-institutional recommendation

International and Intergovernmental Relations

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of International and Intergovernmental Relations in this report.

OUTSTANDING RECOMMENDATIONS

The following recommendation is outstanding and not yet ready for a follow-up audit:

Evaluating international offices' performance—March 2015, no. 16, p. 121
(Originally October 2008, p. 324)
We again recommend that the Department of International and Intergovernmental Relations improve the processes management uses to evaluate the performance of each international office.

Jobs, Skills, Training and Labour

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Jobs, Skills, Training and Labour in this report.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Occupational health and safety: Work Safe Alberta planning and reporting—April 2010, p. 43
We recommend that the Department of Jobs, Skills, Training and Labour improve its planning and reporting systems for occupational health and safety by:

- obtaining data on chronic injuries and diseases to identify potential occupational health and safety risks
- completing the current update of the Work Safe Alberta Strategic Plan
- measuring and reporting performance of occupational health and safety programs and initiatives that support key themes of the plan

Occupational health and safety: Certificate of Recognition—April 2010, p. 48
We recommend that the Department of Jobs, Skills, Training and Labour improve its systems to issue Certificates of Recognition by:

- obtaining assurance on work done by Certificate of Recognition auditors
- consistently following up on recommendations made to certifying partners

Occupational health and safety: Promoting and enforcing compliance—July 2012, no. 12, p. 83
(Originally April 2010, no. 3, p. 39)
We again recommend that the Department of Jobs, Skills, Training and Labour enforce compliance with the law by high-risk employers and workers.

Justice and Solicitor General

SUMMARY

DEPARTMENT

There are no new or outstanding recommendations to the Department of Justice and Solicitor General.

Legislative Assembly Offices

SUMMARY

There are no new or outstanding recommendations to the Legislative Assembly Office or Officers of the Legislative Assembly.

Municipal Affairs

SUMMARY

DEPARTMENT

Matters from the current audit

Disaster recovery program (DRP)—updating the estimated liability—see below

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Matters from the current audit

Disaster recovery program (DRP)—updating the estimated liability

Background

The Department of Municipal Affairs administers and manages the funds and programs needed to recover from significant natural and other disasters. The department's disaster recovery program provides funding for residents, small businesses, agricultural producers, municipalities and other government departments when events like overland flooding cause uninsurable damage and loss. The Alberta Emergency Management Agency is responsible for administering these programs. AEMA is part of the Department of Municipal Affairs.

When the Lieutenant Governor in Council declares a disaster, AEMA estimates the total expected cost for the emergency and the department's financial services branch records the total expected expense and associated liability in the department's financial statements.

Disasters can involve widespread damage as well as damage to significant infrastructure. The costs of disaster recovery may be eligible for cost sharing with the Government of Canada through Public Safety Canada's Disaster Financial Assistance Arrangement. Five years or more can pass from the time of the disaster to the time the damage is repaired and the department submits expenses to the Government of Canada for reimbursement.

Provincial disaster recovery costs, and the revenue from the Government of Canada for disaster recovery, are often significant to the department's finances and, occasionally, to the Government of Alberta's finances. This is particularly true for the 2013 southern Alberta flood, which was significant to both the department and the Government of Alberta. The 2013 southern Alberta flood created a heavy demand on the government processes to deliver financial assistance and recovery funding. In 2014 the department estimated the total eligible DRP costs for the 2013 southern Alberta flood at $2.4 billion and recorded this as an expense in its financial statements. In 2015, using more current information, the department updated its estimate to $1.6 billion, a decrease of $756 million. As of March 31, 2015, the department had a liability of $699 million for claims it had not yet paid.

Before January 2014, the department relied on a contracted service provider for all engineering and claim assessment services related to municipalities, residents, small businesses and agriculture producers. The service provider estimated the extent of damage, assessed the claims and calculated the claim payout.

In March 2014 the department announced that it was not renewing the service provider's contract, effective March 2015. Over the past year, AEMA has taken over the former contractor's responsibilities and undergone a significant transition to build capacity and develop expertise internally. AEMA had to design and implement systems to deliver financial assistance through the transition, while simultaneously processing the remaining outstanding DRP claims and updating the estimated DRP liability.

RECOMMENDATION 16: IMPROVE SYSTEMS FOR UPDATING THE ESTIMATED DISASTER RECOVERY PROGRAM LIABILITY

We recommend that the Department of Municipal Affairs develop and implement an improved method for updating and supporting its estimated disaster recovery program liability.

Criteria: the standards for our audit

The department should periodically update its estimates of disaster recovery liability, using a standard methodology and assumptions that are reasonable and supportable.

Management should review its updated estimates for DRP liability and supporting analysis to ensure they are accurate, supported and based on a standard methodology.

Our audit findings

KEY FINDINGS

- The department did not have an adequate process for updating its estimated DRP liability. Management could not support significant assumptions behind their estimates at March 31, 2015.
- The support for the estimate was not at a sufficient level of detail to identify material inaccuracies. The department made material adjustments to its draft financial statements because of these inaccuracies.
- The department's financial services branch did not receive sufficient information from AEMA to satisfy itself that the updated estimate was reasonable.

We examined the department's systems for updating the estimated liability for claims remaining at March 31, 2015. We found significant problems with these systems. Because of our findings, the department reduced its updated claims payable estimate by $265 million and the amount expected from the Government of Canada by $130 million. This $265 million reduction included $243 million for the 2013 southern Alberta flood. The $243 million is part of the $756 million reduction in the department's updated estimate.

Methods for updating the estimated DRP liability

Estimating liability for disaster recovery claims is a complex task. As more information becomes available, cost estimates may change significantly from the original estimate. The department should forecast known factors such as the number of claimants, as well as unknown factors such as the extent of damage, inflation and other project risks. As the department obtains new or better information on the extent of damage or project scope, and more accurate cost estimates and actual expenses become available, the estimate should become more accurate.

We found that the department did not have an adequate process for updating its estimated DRP liability. The department used various methods, based on different disaster programs and types of damage, to estimate its liability. The department started with estimates from its contracted service provider for the majority of the claims. AEMA management then made significant adjustments to these estimates for other factors that the service provider did not take into account.

The department could support some of these adjustments; others it could not. The adjustments were often based on management's judgment rather than on supportable evidence. As a result of our audit, the department reduced its March 31, 2015 estimated DRP liability by $62 million for adjustments it could not support.

Other Alberta government departments manage disaster recovery projects such as repairs to bridges, buildings, parks and roads. Since the department administers all DRP funds, it is responsible for recording the estimated expenses for all of these projects. It is also responsible for obtaining the updated estimated liability from the departments which manage these projects. We identified three weaknesses with this process.

- Information to support estimates not obtained—The department does not require other departments to report whether their estimates include reserves for contingency or other factors that might escalate costs.
- Project status and risks not tracked—The department does not ask for non-financial information such as project status, changes in project scope, percentage complete, estimate accuracy or risks which may affect the estimated liability. A more thorough project update would help the department assess the reasonableness of the estimated liability.
- Management review not required—The department does not require senior management in other departments, responsible for the managing these funds, to review or approve the estimated liability.

After the department estimates its liability for claims not yet paid, it also adjusts the contingency reserve and records the reserve as a liability in its financial statements. The contingency reserve is for unknown risks that could affect the cost of the disaster recovery programs, such as unknown claims, scope changes, inflation or cost overruns. If other departments are also including contingency reserves in their estimates, the total reserves set aside for contingencies might be too high.

At March 31, 2015, the department recorded a contingency reserve of approximately 13 per cent ($79 million) of the remaining claims payable for the 2013 southern Alberta flood. Although the department calculates the reserve using a percentage of the estimate for outstanding claims, it does not have a documented or approved method for deciding on the contingency reserve percentage. Nor does it have a robust analysis to support the reasonability of the reserve. It is also not clear how management adjusts the contingency reserve as time progresses and unknown factors, such as project scope and costs become known or more certain.

The department has been including contingency reserves in its disaster recovery estimated liability for several years. However, it has not completed an analysis to assess the accuracy of the reserves. A historical analysis, based on actual experience, could provide the department with valuable information for developing and supporting its contingency reserve methodology.

Support, analysis and review of the DRP liability

Management's review of the DRP liability at March 31, 2015 was not at a sufficient level of detail to identify material inaccuracies. One of the DRP balances listed over $630 million in remaining claims payable at March 31, 2015. AEMA was initially unable to tell us how much of the $630 million related to private sector, municipal and temporary accommodations. After significant manual effort, AEMA was able to delineate this balance by claim type. AEMA also identified a $158 million liability which was recorded for temporary accommodation claims, but was no longer valid. AEMA re-examined the estimated liability for other disaster programs and found an additional $45 million that was no longer valid. The department subsequently corrected for these inaccuracies.

AEMA created a majority of the support and analysis for its March 31, 2015 estimated liability after our request. We expected AEMA would have done this analysis as part of its process to update the estimated liability in the department's financial statements. The AEMA executive director would also have needed this level of support for his review of the estimate.

Review of the estimated DRP liability by financial services

The DRP expense, liability and associated revenue and receivables from the Government of Canada are significant estimates within the department's financial statements. AEMA is accountable for updating its estimates and providing these updates to the department's financial services branch. The financial services branch is accountable for producing accurate and complete financial reports for the department, including financial statements.

The financial services branch relies on AEMA to provide updated estimates of DRP liability. The department's financial services branch did not receive adequate information from AEMA to satisfy itself that the financial information that AEMA provided was accurate, complete and useful for the department's financial reporting purposes. Other than a continuity schedule of opening claims payable, payments, adjustments and remaining claims payable, we could not find any other robust support or analysis provided to the financial services branch to support AEMA's estimated DRP liability at March 31, 2015.

Implications and risks if recommendation not implemented

Management can expect and accept some uncertainty in estimates for the cost of recovering from a disaster. However, the degree of uncertainty increases unacceptably when the estimate is based on poorly designed systems. Inaccurate estimates affect the financial reports that users rely on for many types of decisions. Decision makers may not have the information they need to make the best decisions.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT AND EXECUTIVE COUNCIL

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Various departments—Contracting: Improve compliance with contracting policies —October 2014, no. 10, p. 62

We recommend that the Departments of Municipal Affairs and Executive Council:

- document the rationale for contracting services and selecting vendors when entering into sole sourced contracts
- follow proper contract administration and evaluation processes
- update their contracting policies to deal with situations where one department arranges for a contractor to perform services for another department

DEPARTMENT AND ENVIRONMENT AND PARKS

The following recommendation is outstanding and not yet ready for a follow-up audit:

Flood mitigation systems: Designate flood hazard area and complete floodway development regulation—March 2015, no. 12, p. 80

To minimize public safety risk and to avoid unnecessary expenditure of public money, we recommend that the:

- Department of Environment and Parks identify flood hazard areas for designation by the minister
- Department of Municipal Affairs:
  - establish processes for controlling, regulating or prohibiting future land use or development to control risk in designated flood hazard areas
  - put in place processes to enforce the regulatory requirements

Seniors

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Seniors in this report.

ALBERTA SOCIAL HOUSING CORPORATION

There are no new recommendations to Alberta Social Housing Corporation.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Systems to deliver affordable housing grants—Develop an evaluation system—July 2013, no. 13, p. 92
We recommend that the Department of Seniors improve its evaluation processes by:

- developing performance measures and adequate information systems so that the department can better evaluate and report on its affordable housing grant programs
- completing periodic evaluations of its affordable housing grants programs

Seniors care—Effectiveness of the Seniors Lodge Program and determine future needs
—October 2014, no. 20, p. 20
(Originally October 2005, no. 12, p. 66)
We again recommend that the Department of Seniors:

- improve the measures it uses to assess the effectiveness of the Seniors Lodge Program and obtain sufficient information periodically to set the minimum disposable income of seniors used as a basis for seniors lodge rent charges
- improve its processes for identifying the increasing care needs of lodge residents and consider this information in its plans for the Seniors Lodge Program

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Systems to deliver affordable housing grants—Improve monitoring processes—July 2013, No. 12, p. 90
We recommend that the Department of Seniors improve its monitoring processes to ensure affordable housing grant recipients comply with their grant agreements by:

- developing and conducting risk-based monitoring activities
- following procedures and processes when performing monitoring activities

ALBERTA SOCIAL HOUSING CORPORATION

The following recommendation is outstanding and not yet ready for a follow-up audit:

Review housing management body cash reserve policy—October 2013, no. 11, p. 145
We recommend that the Alberta Social Housing Corporation review the housing management body cash reserve policy to determine if the policy continues to meet its objective of providing appropriate short-term operational cash flow requirements to the housing management bodies.

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Social housing contracting policy—November 2011, no. 17, p. 120
We recommend that the Alberta Social Housing Corporation develop a contracting policy for capital additions to its social housing portfolio and strengthen related contract management processes.

Service Alberta

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Service Alberta in this report.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Access and security monitoring of the revenue application systems—October 2008, p. 346
We recommend that the Department of Service Alberta ensure adequate logging and monitoring processes are in place in all application systems that host or support financial information and Albertans' personal information.

IT disaster recovery program: Improve recovery of critical information technology applications —October 2014, no. 5, p. 45
We recommend that the Department of Service Alberta, with support from the Deputy Ministers' Council:

- identify the most critical IT applications throughout all government entities
- identify the times, after a disaster, that critical IT applications must be recovered
- ensure that there are tested plans and adequate resources to recover critical IT applications within those times

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

System conversion process—October 2008, p. 349
We recommend that the Department of Service Alberta document its review of actual system-conversion activities to ensure that they comply with the approved test plan for system conversion and data migration.

Transportation

SUMMARY

DEPARTMENT

There are no new recommendations to the Department of Transportation in this report.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Commercial vehicle safety: Progressive sanctions—July 2014, no. 7, p. 70 (Originally October 2009, no. 14, p. 127)
We again recommend that the Department of Transportation enforce compliance by carriers who persistently fail to comply with rules and regulations.

Systems to manage the structural safety of bridges: Improve contracting level 1 bridge inspections —July 2015 no. 10, p. 99 (Originally October 2012, no. 6, p. 27)
We again recommend that the Department of Transportation improve its process to contract its visual inspections by documenting how it establishes criteria for assessing candidates and awards points for each criterion.

Systems to manage the structural safety of bridges: Assess whether to contract out program delivery—July 2015, no. 11, p. 101 (Originally October 2012, no. 5, p. 26)
We again recommend that the Department of Transportation regularly assess whether it should contract out inspections or do them itself.

Management had identified this recommendation as implemented—to be confirmed with a follow-up audit:

Improve processes to value donated assets in the department financial statements —October 2010, p. 197
We recommend that the Department of Transportation:

- enter into agreements with donors that:
  - provide the Department of Transportation with assurance on the fair value of the donated assets
  - specify whether donation receipts will be issued
- document its support for the valuation reported in its financial statements, including the procedures performed, assumptions made and source documents reviewed

Treasury Board and Finance

SUMMARY

DEPARTMENT

Matters from the current audit

Treasury Board and Finance—Compliance systems for unfiled corporate income tax returns —see page 156

Matters from prior audits

Treasury Board and Finance—Air Transportation Services Program Follow-up—see page 63

The department implemented our recommendation related to compensation disclosure for seconded executives—see page 157.

ALBERTA GAMING AND LIQUOR COMMISSION

Matters from the current audit

There are no new recommendations to the Alberta Gaming and Liquor Commission in this report.

ALBERTA INVESTMENT MANAGEMENT CORPORATION

Matters from the current audit

There are no new recommendations to the Alberta Investment Management Corporation in this report.

Matters from prior audits

We provide a progress report on an outstanding recommendation from a prior audit—starting on page 158

ATB FINANCIAL

Matters from the current audit

There are no new recommendations to ATB Financial in this report.

Matters from prior audits

ATB Financial implemented our recommendation related to IT risk assessments—see page 158.

FINDINGS AND RECOMMENDATIONS

DEPARTMENT

Compliance systems for unfiled corporate income tax returns

Background

The Tax and Revenue Administration division of the Department of Treasury Board and Finance is responsible for ensuring corporations file their tax returns within six months of their tax year-end, unless the corporation is exempt from doing so.[1] Corporations are charged a penalty if they file returns late or not at all, or if they do not pay outstanding taxes when required.

As of November 2014, the TRA assigns a risk score to corporations which have not filed their returns. Supervisors assign high-risk files to filing compliance officers to contact corporations to file their returns. The TRA can issue a demand to a corporation, its officers or directors to file a return, and can estimate the corporation's tax payable if the demand or requests are ignored. This process is known as default assessment.

RECOMMENDATION 17: IMPROVE COMPLIANCE SYSTEMS FOR UNFILED CORPORATE INCOME TAX RETURNS

We recommend that the Department of Treasury Board and Finance improve its compliance systems to deal with unfiled corporate income tax returns.

Criteria: the standards we used for our audit

The department should:

- have comprehensive policies and procedures to ensure corporations file returns as required
- monitor and analyze its inventory of unfiled returns to determine the appropriate steps to take, including issuing demands and default assessments
- periodically monitor the filing compliance officers' inventory to ensure that they are taking appropriate steps to encourage corporations to file their returns

Our audit findings

KEY FINDINGS

The TRA does not:

- have strategies to deal with outstanding tax returns—some are more than eight years in arrears
- use default assessments to require corporations to file returns and pay any owed taxes
- have comprehensive management reports that contain key information to oversee filing compliance activities
- monitor filing compliance officers' work sufficiently

The TRA implemented a new risk scoring system in November 2014 and closed a large number of files which it considered to be low risk. However, there still are a significant number of outstanding corporate tax returns—some dating back more than eight years. The TRA either continues to follow up with these corporations or awaits information from the Canada Revenue Agency in order to close these outstanding files.

Policies and procedures

The TRA does not have comprehensive policies and processes to ensure corporations file their returns or to issue a default assessment as allowed by the *Alberta Corporate Tax Act*. Such policies and processes should include criteria to determine when to issue demands or default assessments, outline roles and responsibilities to review and approve actions, indicate how to calculate default assessments, and specify the collection actions that should be taken.

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[1] *Corporate Income Tax Act*, Section 36.

Management reports

The TRA management reviews a monthly report that includes an aged breakdown of the filing inventory, the number of new unfiled returns, the number of files that filing compliance officers closed, the number of returns filed by corporations, and the number of files that the system automatically closed. The report does not contain information on the risk ranking for files or actions on long outstanding files to allow management to determine if compliance activities are effective or whether changes are required to policies and resources.

Monitoring compliance officers' work

The TRA's processes to monitor compliance officer actions regarding unfiled returns need improvement. Supervisors review all files that compliance officers with less than three-months experience process. As filing compliance officers gain experience and process files appropriately, supervisors reduce their file review until they no longer review these files. The only other review that supervisors perform is a review of the inventory to determine if filing compliance officers are meeting their targets for closing files. This review is conducted to replenish the inventories of the filing compliance officers; not to ensure compliance officers are taking appropriate action so that corporations file their tax returns.

Furthermore, the TRA's IT system has built-in controls to automatically notify the supervisor when certain criteria or conditions on a particular file are met. The TRA has configured several of these automated controls, but could further enhance this to ensure the compliance processes are more efficient and effective. For example, enabling an automated control to route files to supervisors if a compliance officer has not made a recommendation for action on a work item would be an improvement.

Implications and risks if recommendation not implemented

The department will not take appropriate actions to ensure corporations file their returns and pay corporate taxes owing.

Compensation disclosure for seconded executives—implemented

Background

In 2008[2] we found that not all seconded executive salaries were disclosed. In a seconded arrangement the seconded executive continues to receive their salary from their employer. The government department reimburses the employer for the salary while the executive is seconded to the government department.

Our audit findings

The Alberta Interchange Secondment Agreement template, which the seconded employee agrees to, was amended to allow the government department to disclose in its financial statements the amount reimbursed to the employer.

The circumstances that this recommendation applies to are rare. Management could not identify an instance where the agreement has been used. Therefore, we were unable to test that it was applied in practice. We concluded that the recommendation is implemented as the department amended the template. We will test for compliance with the new process the next time an executive, to whom the compensation disclosures would otherwise apply, is seconded to a department.

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[2] *Report of the Auditor General of Alberta—October 2008*, unnumbered, page 371.

ALBERTA INVESTMENT MANAGEMENT CORPORATION

Matters from prior audits

Valuing investments in life settlements—progress report

In 2014[3] we recommended that AIMCo ensure that its Statement of Investment Valuation Principals and Practices is applied when valuing and accounting for its life settlement investments.

AIMCo engaged a public accounting firm to assess the methodology used to value life settlements. The firm reached similar conclusions to those we reported last year including:

- day-one gains were recognized without the appropriate support required under IFRS
- the discount rate did not reflect the current market yield
- life expectancy assumptions were not updated

In December 2014 AIMCo revalued the portfolio by approximately $437 million. This revaluation accounted for the reversal of previously recognized day-one gains and adjusting the discount rates used to the internal rates of return inherent in the purchase price of the policies. The revaluation also accounts for the effect of adjustments made to the mortality tables of one of the underwriters, as well as new medical underwriting for a portion of the portfolio policies.

We reviewed AIMCo's new life settlement valuation methodology and concluded that overall it is reasonable. To finish implementing this recommendation AIMCo still needs to establish a method of updating the discount rate in the future for changes in market yield. AIMCo also must finish updating the medical underwriting on the balance of policies in the portfolio.

We plan to follow up and report whether this recommendation has been fully implemented during the 2015–2016 audit.

ATB FINANCIAL

Matters from prior audits

IT Risk assessments—implemented

Background

In 2013[4] we recommended that ATB put in processes to identify, assess and remediate or accept IT risks. Effective risk management is important to ensure that ATB identifies and manages the IT risks it is exposed to. This allows ATB to develop and implement effective policies, procedures and controls to mitigate those risks.

Our audit findings

ATB implemented our recommendation by establishing an IT risk management process.
In 2014 ATB conducted an IT risk assessment by interviewing senior management across its key business areas to understand the current state of IT risk management. It then assessed the impact and likelihood of identified IT risks and identified controls to mitigate these risks. A risk registry was prepared to define the risk assessment results. Key control procedures were defined.

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[3] *Report of the Auditor General of Alberta—October 2014*, no. 25, page 199.

[4] *Report of the Auditor General of Alberta—October 2013,* no.12, page 156.

ATB also developed a new initiative risk assessment process to evaluate new (or changes to) products, services or strategies that could alter the IT risk profile of ATB. The process requires ATB to assess the risks associated with new initiatives, as well as ensure appropriate controls and monitoring tools are in place to mitigate risks. ATB's operational risk committee provides oversight of this process.

OUTSTANDING RECOMMENDATIONS

DEPARTMENT

The following recommendations are outstanding and not yet ready for follow-up audits:

Chief executive officer compensation disclosure—October 2008, no. 3, p. 32
We recommend that the Treasury Board and Finance consider applying the new private-sector compensation-disclosure requirement to the Alberta public sector.

Improve ministry annual report processes—July 2012, no. 10, p. 65
We recommend that the Department of Treasury Board and Finance work with ministries to improve annual report:

- preparation processes for identifying significant performance measure variances and developing explanations for these variances for reporting
- approval processes, including senior management sign-off of a summary of the year's performance measure variances and significant variance assessments

Improve performance measure reporting guidance and standards—July 2012, no. 11, p. 67
We recommend that the Department of Treasury Board and Finance improve its guidance for:

- performance measure target setting
- variance identification
- significant performance measure variance assessments and annual report explanation development
- preparing the results analysis

Policies designed to achieve plan objectives—February 2014, no. 1, p. 24
We recommend that the Department of Treasury Board and Finance set standards for the public sector pension plan boards to establish funding and benefit policies with:

- tolerances for the cost and funding components
- alignment between plan objectives and benefit, investment and funding policies
- pre-defined responses when tolerances are exceeded or objectives are not met

Risk management system—February 2014, no. 2, p. 26
We recommend that the Department of Treasury Board and Finance establish an Alberta public sector pension plan risk management system to support the minister in fulfilling his responsibilities for those plans.

Sustainability support processes—February 2014, no. 3, p 28
We recommend that the Department of Treasury Board and Finance:

- validate the objectives for the pension plan sustainability review with stakeholders
- evaluate and report on how each proposed change meets the objectives for the review
- cost and stress-test all proposed changes to assess the likely and possible future impacts on Alberta's public sector pension plans
- conduct or obtain further analysis of the impact of proposed pension plan design changes on employee attraction and retention
- prepare a detailed implementation plan for the changes

Results analysis reporting: Guidance, training and monitoring needed—July 2014, no. 1, p. 18
We recommend that the Department of Treasury Board and Finance, working with the Deputy Ministers' Council, improve:

- the guidance and training for ministry management to identify, analyze and report on results in ministry annual reports
- processes to monitor ministry compliance with results analysis reporting standards

Collection of outstanding corporate taxes: Maintain policies and train staff —October 2014, no. 6, p. 51
We recommend that the Department of Treasury Board and Finance:

- update and maintain its policies and procedures for tax compliance officers
- review its training program to ensure it provides relevant and ongoing training to tax compliance officers

Collection of outstanding corporate taxes: Develop internal and external performance measures and targets—October 2014, no. 7, p. 52
We recommend that the Department of Treasury Board and Finance develop comprehensive performance measures and targets for tax collections and determine which to report publicly.

Collection of outstanding corporate taxes: Improve management information and analyze data periodically—October 2014, no. 8, p. 54
We recommend that the Department of Treasury Board and Finance:

- update its management reports to include additional information on the status of tax collection files and the success of its various collection activities
- periodically analyze the characteristics of the corporate taxes outstanding to identify potential changes to legislation, policies and collections strategies
- deal with the backlog of files submitted for write-off and low value accounts

Enterprise risk management systems—October 2014, no. 22, p. 194
We recommend that the Department of Treasury Board and Finance update and follow its enterprise risk management system by identifying, monitoring, communicating and appropriately mitigating relevant risks.

Improve access controls over the tax and revenue administration systems —October 2014, no. 23, p. 195

We recommend that the Department of Treasury Board and Finance improve the security of its tax and revenue information systems to ensure that it:

- assigns access based on job roles and responsibilities
- defines, monitors and enforces its rules for segregation of duties
- periodically reviews if access to its systems remains appropriate

Corporate tax refunds—October 2014, no. 24, p. 197

We recommend that the Department of Treasury Board and Finance approve tax refunds before making payments in accordance with the requirements of the *Financial Administration Act*.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

Public agencies: Disclosure of termination benefits paid—October 2009, no. 2, p. 29

We recommend that the Ministry of Treasury Board and Finance increase transparency of termination benefits by adopting disclosure practices for Alberta public agencies that disclose termination benefits paid.

Oversight of premier's office expenses and use of government aircraft—August 2014, no. 1, p. 19

We recommend that the Treasury Board:

- establish a process to provide oversight through monitoring of the Office of the Premier's expenses and usage of government aircraft
- consider what type of oversight should be used for the expenses of ministers' offices

ALBERTA INVESTMENT MANAGEMENT CORPORATION

The following recommendations are outstanding and not yet ready for follow-up audits:

Help clients meet financial reporting requirements—October 2010, no. 17, p. 156

We recommend that Alberta Investment Management Corporation identify financial reporting requirements in its investment management agreements with clients. The Alberta Investment Management Corporation should meet with the clients to understand their financial reporting frameworks, their financial accounting requirements and the investment-related information they need to prepare financial statements.

Valuing investment in life settlements—October 2014 no. 25, p. 199

We recommend that Alberta Investment Management Corporation ensure that its Statement of Investment Valuation Principles and Practices is applied when valuing and accounting for its life settlement investments.

ATB FINANCIAL

The following recommendations are outstanding and not yet ready for follow-up audits:

Payment card industry—October 2012, no. 31, p. 149

We recommend that ATB Financial put in place processes to monitor its compliance with the Payment Card Industry's requirements.

Borrower risk ratings—October 2013, no. 14, p. 158

We recommend that ATB Financial fix the borrower risk ratings in the banking system.

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit:

Service auditor reports—October 2014, no. 26, p. 202
(Originally October 2009, p. 227)

We again recommend that ATB Financial improve its processes related to service providers by ensuring its business areas:

- receive service provider audit reports
- review service provider audit reports and assess the impact of identified internal control weaknesses put end-user controls in place to complement service provider controls

AUDITOR
GENERAL
Alberta

Glossary

REPORT OF THE AUDITOR GENERAL OF ALBERTA

October 2015

GLOSSARY

Accountability for results The obligation to show continually improving results in the context of fair and agreed on expectations. For Albertans to receive value for money, all those who use public resources must:

- set measurable results and responsibilities
- plan what needs to be done to achieve results
- do the work and monitor progress
- report on results
- evaluate results and provide feedback (results analysis)

Accrual basis of accounting A way of recording financial transactions that puts revenues and expenses in the period when they are earned and incurred.

Adverse auditor's opinion An auditor's opinion that things audited do not meet the criteria that apply to them.

Assurance An auditor's written conclusion about something audited. Absolute assurance is impossible because of several factors, including the nature of judgment and testing, the inherent limitations of control and the fact that much of the evidence available to an auditor is only persuasive, not conclusive.

Attest work, attest audit Work an auditor does to express an opinion on the reliability of financial statements.

Audit An auditor's examination and verification of evidence to determine the reliability of financial information, to evaluate compliance with laws or to report on the adequacy of management systems, controls and practices.

Auditor A person who examines systems and financial information.

Auditor's opinion An auditor's written opinion on whether things audited meet the criteria that apply to them.

Auditor's report An auditor's written communication on the results of an audit.

Business case An assessment of a project's financial, social and economic impacts. A business case is a proposal that analyzes the costs, benefits and risks associated with the proposed investment, including reasonable alternatives.

Capital asset A long-term asset.

COBIT Abbreviation for Control Objectives for Information and Related Technology. COBIT provides good practices for managing IT processes to meet the needs of enterprise management. It bridges the gaps between business risks, technical issues, control needs and performance measurement requirements.

COSO Abbreviation for Committee of Sponsoring Organizations of the Treadway Commission. COSO is a joint initiative of five private sector organizations and is dedicated to development of frameworks and guidance on risk management, internal control and fraud deterrence.

CPA Canada Chartered Professional Accountants of Canada is the national professional accounting body established to support a unified Canadian accounting profession. It replaces the Canadian Institute of Chartered Accountants (CICA), the Society of Management Accountants of Canada (CMA Canada) and Certified General Accountants of Canada (CGA-Canada).

Criteria Reasonable and attainable standards of performance that auditors use to assess systems or information.

Cross-ministry A section of this report covering systems and problems that affect several ministries or the whole government.

Crown Government of Alberta

Deferred maintenance Any maintenance work not performed when it should be. Maintenance work should be performed when necessary to ensure capital assets provide acceptable service over their expected lives.

Disclosure of opinion The auditors report they are unable to express an opinion on the subject matter because they have not been able to obtain evidence to determine the reliability of financial information, to evaluate compliance with laws or to report on the adequacy of management systems, controls and practices.

Enterprise risk management (ERM) The systems and processes within an organization used to identify and manage risks so it can achieve its goals and objectives. An ERM creates linkages between significant business risks and possible outcomes so that management can make informed decisions. An ERM framework helps organizations identify risks and opportunities, assess them for likelihood and magnitude of impact, and determine and monitor the organization's responses and actions to mitigate risk. A risk-based approach to managing an enterprise includes internal controls and strategic planning.

Enterprise resource planning (ERP) ERP integrates and automates all data and processes of an organization into one comprehensive system. ERP may incorporate just a few processes, such as accounting and payroll, or may contain additional functions such as accounts payable, accounts receivable, purchasing, asset management, and/or other administrative processes. ERP achieves integration by running modules on standardized computer hardware with centralized databases used by all modules.

Exception Something that does not meet the criteria it should meet—see "Auditor's opinion."

Expense The cost of a thing over a specific time.

IFRS International Financial Reporting Standards (IFRS) are global accounting standards, adopted by the Accounting Standards Board of the Chartered Professional Accountants of Canada. They are required for government business enterprises for fiscal years beginning on or after January 1, 2011.

GAAP Abbreviation for "generally accepted accounting principles," which are established by the Chartered Professional Accountants of Canada. GAAP are criteria for financial reporting.

Governance A process and structure that brings together capable people and relevant information to achieve results (the cost-effective use of public resources).

Government business enterprise A commercial-type enterprise controlled by government. A government business enterprise primarily sells goods or services to individuals or organizations outside government, and is able to sustain its operations and meet its obligations from revenues received from sources outside government.

Internal audit A group of auditors within an organization that assesses and reports on the adequacy of the organization's internal controls. The group typically reports its findings directly to the deputy minister or governing board. Internal auditors need an unrestricted scope to examine business strategies, internal control systems, compliance with policies, procedures, and legislation, economical and efficient use of resources and effectiveness of operations.

Internal control A system designed to provide reasonable assurance that an organization will achieve its goals. Management is responsible for an effective internal control system in an organization, and the organization's governing body should ensure that the control system operates as intended. A control system is effective when the governing body and management have reasonable assurance that:
- they understand the effectiveness and efficiency of operations
- internal and external reporting is reliable
- the organization is complying with laws, regulations and internal policies

Management letter Our letter to the management of an entity that we have audited. In the letter, we explain:
1. our work
2. our findings
3. our recommendation of what the entity should improve
4. the risks if the entity does not implement the recommendation

We also ask the entity to explain specifically how and when it will implement the recommendation.

Material, materiality Something important to decision makers.

Misstatement A misrepresentation of financial information due to mistake, fraud or other irregularities.

Outcomes The results an organization tries to achieve based on its goals.

Outputs The goods and services an organization actually delivers to achieve outcomes. They show "how much" or "how many."

Oversight The job of:
- being vigilant,
- checking that processes/systems, including the accountability for results system, are working well, and
- signaling preferred behaviour,

all in the pursuit of desired results.

Performance measure Indicator of progress in achieving a desired result.

Performance reporting Reporting on financial and non-financial performance compared with plans.

Performance target The expected result for a performance measure.

PSAB Abbreviation for Public Sector Accounting Board, the body that sets public sector accounting standards.

PSAS Abbreviation for Public Sector Accounting Standards, which are applicable to federal, provincial, territorial and local governments.

Qualified auditor's opinion An auditor's opinion that things audited meet the criteria that apply to them, except for one or more specific areas—which cause the qualification.

Recommendation A solution we—the Office of the Auditor General of Alberta—propose to improve the use of public resources or to improve performance reporting to Albertans.

Review Reviews are different from audits in that the scope of a review is less than that of an audit and therefore the level of assurance is lower. A review consists primarily of inquiry, analytical procedures and discussion related to information supplied to the reviewer with the objective of assessing whether the information being reported on is plausible in relation to the criteria.

Risk Anything that impairs an organization's ability to achieve its goals.

Sample A sample is a portion of a population. We use sampling to select items from a population. We perform audit tests on the sample items to obtain evidence and form a conclusion about the population as a whole. We use either statistical or judgmental selection of sample items, and we base our sample size, sample selection and evaluation of sample results on our judgment of risk, nature of the items in the population and the specific audit objectives for which sampling is being used.

Standards for systems audits Systems audits are conducted in accordance with the assurance and value-for-money auditing standards established by the Chartered Professional Accountants of Canada.

Systems (management) A set of interrelated management control processes designed to achieve goals economically and efficiently.

Systems (accounting) A set of interrelated accounting control processes for revenue, spending, preservation or use of assets and determination of liabilities.

Systems audit To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money. Paragraphs (d) and (e) of Subsection 19(2) of the *Auditor General Act* require us to report every case in which we observe that:

- an accounting system or management control system, including those designed to ensure economy and efficiency, was not in existence, or was inadequate or not complied with, or
- appropriate and reasonable procedures to measure and report on the effectiveness of programs were not established or complied with.

To meet this requirement, we do systems audits. Systems audits are conducted in accordance with the auditing standards established by the Chartered Professional Accountants of Canada. First, we develop criteria (the standards) that a system or procedure should meet. We always discuss our proposed criteria with management and try to gain their agreement to the criteria. Then we do our work to gather audit evidence. Next, we match our evidence to the criteria. If the audit evidence matches all the criteria, we conclude the system or procedure is operating properly. But if the evidence doesn't match all the criteria, we have an audit finding that leads us to recommend what the ministry or organization must do to ensure that the system or procedure will meet all the criteria. For example, if we have five criteria and a system meets three of them, the two unmet criteria lead to the recommendation. A systems audit should not be confused with assessing systems with a view to relying on them in an audit of financial statements.

Unqualified auditor's opinion An auditor's opinion that things audited meet the criteria that apply to them.

Unqualified review engagement report Although sufficient audit evidence has not been obtained to enable us to express an auditor's opinion, nothing has come to our attention that causes us to believe that the information being reported on is not, in all material respects, in accordance with appropriate criteria.

Value for money The concept underlying a systems audit is value for money. It is the "bottom line" for the public sector, analogous to profit in the private sector. The greater the value added by a government program, the more effective it is. The fewer resources used to create that value, the more economical or efficient the program is. "Value" in this context means the impact that the program is intended to achieve or promote on conditions such as public health, highway safety, crime, farm incomes, etc. To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

AUDITOR
GENERAL
Alberta

OAG Results Analysis Report 2014–2015

REPORT OF THE AUDITOR GENERAL OF ALBERTA

October 2015

AUDITOR
GENERAL
Alberta

Ms. Denise Woollard, MLA
Chair
Standing Committee on Legislative Offices

Office of the Auditor General of Alberta
Results Analysis Report for the Year Ended March 31, 2015

I am honoured to send you this Results Analysis Report on the operations of the office for the fiscal year April 1, 2014 to March 31, 2015.

[Original signed by Merwan N. Saher FCPA, FCA]
Merwan N. Saher FCPA, FCA
Auditor General

Edmonton, Alberta
September 28, 2015

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* including performance measures (Schedule 2, page 220)

ACCOUNTABILITY STATEMENT

This results analysis report of the Office of the Auditor General of Alberta summarizes and analyzes the work of our office for the fiscal year ended March 31, 2015.

In this report we explain how we used Albertans' money as the independent auditor of the Government of Alberta. We are reporting against our 2014–2017 business plan, which included our office's strategies and priorities for fiscal 2015.

In the year ended March 31, 2015 the office issued five public reports:
- July 2014
- August 2014 (externally requested special duty report)
- September 2014
- October 2014
- March 2015

We believe this results analysis report, which includes our independently audited 2014–2015 financial statements, presents our operations and results in a complete, fair and balanced manner.

[original signed by]

Merwan N. Saher FCPA, FCA
Auditor General

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Assistant Auditor General

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Executive Director, Corporate Services and Office Accountability

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RESULTS MANAGEMENT FRAMEWORK

This results analysis report summarizes the Office of the Auditor General of Alberta's achievements in the year ended March 31, 2015 and identifies lessons we have learned and plan to incorporate into our business. It is the key annual public performance report prepared under the office's results management framework, which has three central integrated processes involving governance, oversight and accountability for results.

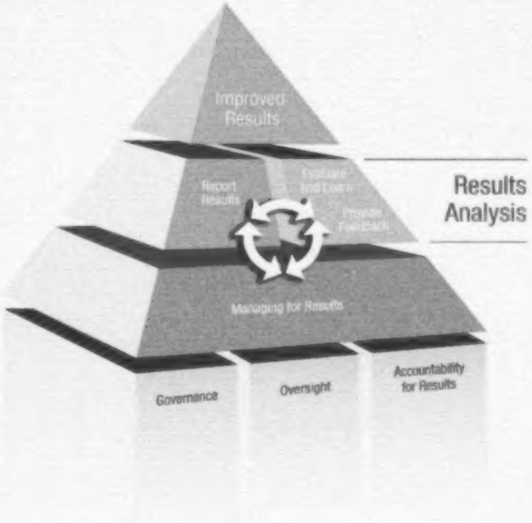
Effective results management starts with governance—the structure and processes we use to bring together capable people and relevant information to achieve cost effective results.

Oversight is the glue that holds our results management framework together. By applying good oversight we will know if we are managing our resources cost effectively in producing our audit results. Our team of management leaders works towards achieving their oversight objectives and the pursuit of desired results by:

- being vigilant and providing watchful care for the office's use of financial and human resources
- checking that our processes and systems are working well, including our system to ensure accountability for how effectively we use our resources
- modelling and signaling preferred behaviours through mentorship and by example

Accountability for results requires a management obligation to show continuous improvement in the context of fair and agreed on expectations. To ensure that Albertans receive the value for money they deserve from our office, we must follow a clear process of accountability for results:

1. Set and communicate measurable results and responsibilities
2. Plan what needs to be done to achieve results
3. Do the work and monitor our progress
4. Identify and evaluate our results, plus provide feedback for continued improvement
5. Publicly report on the results of our work



The results management framework outlines a formal process in which we can learn from what we are doing so that we can do better in the future. The framework also prompts us to feed the analysis back into our business planning and processes. The three parts – governance, oversight and accountability for results – work together to produce effective results.

OUR BUSINESS

OUR MANDATE

The Office of the Auditor General of Alberta serves the Legislative Assembly and the people of Alberta. Our mandate is to examine and report publicly on government's management of and accountability practices for the public resources entrusted to it. Under the *Auditor General Act*, the auditor general is the auditor of every ministry, department, regulated fund and provincial agency.

WHAT WE DO

We have two core lines of business designed to provide expert auditing of the government's:

- financial statements (this also includes reporting on compliance with authorities, performance measures, results analysis, and research and advice)
- management systems and processes (systems audits)

Our audit reports on financial statements are included in the annual reports published by ministries and their related entities. We provide our opinion on whether the financial statements are presented fairly, in accordance with the appropriate standards.

Ministries and their related entities also include our conclusions (auditor general report scope and level of assurance is limited) about selected performance measures in their annual reports. We report on the performance measures of about 14 per cent of the organizations for which we audit financial statements.

Systems audits are of two types. In a stand-alone systems audit, we audit major programs or initiatives that an organization undertakes to achieve its goals. In these audits, we answer the question "Does the organization have the policies, processes and controls to accomplish its goals and mitigate its risks economically and efficiently?" Such systems include procedures to measure and report on the effectiveness of programs.

The second type of systems audit is a by-product of our financial statements audits. We make recommendations to management if we find that an organization could improve its systems in areas such as governance and accountability for results, internal control over financial management, information technology or performance reporting.

HOW WE REPORT ON OUR WORK

We make our findings and recommendations public in auditor general reports to the Legislative Assembly.

Once the Government of Alberta has acted upon our audit recommendations, we carry out follow-up audits to confirm that our recommendations have been implemented. Ideally, implementation by management and our follow-up reporting on the appropriateness of their implementation is completed within three years of each original recommendation. The results of the follow-up audits are also included in auditor general reports to complete our reporting to Albertans.

OUR GOALS

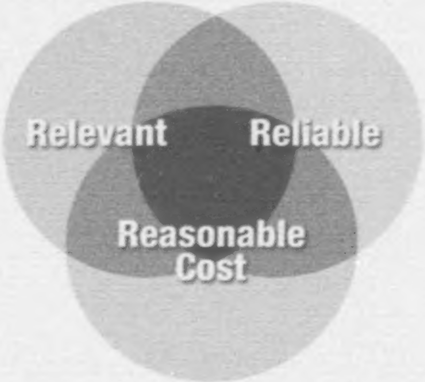
In fulfilling our mandate, and in pursuit of our vision to add value through expert auditing, our goals are to provide relevant and reliable audit services and public reporting within the constraint of reasonable cost. Our business plan is designed to ensure our audits are:

Relevant—Our work must be relevant to the Legislative Assembly and Albertans.

Reliable—The Legislative Assembly and Albertans must be able to count on our work.

Reasonable cost—We exercise fiscal stewardship in producing relevant and reliable reports.

As illustrated below, our overriding goal is to optimize the congruence (i.e., the degree and balance) among these three, sometimes competing, objectives.



Consistently working towards these three goals helps focus our planning, operational and evaluation decisions.

OUR STRATEGY

The business plan highlights our primary strategy—to perform more added-value systems audit work—without compromising our financial statements auditing responsibilities. Anchored by the *Auditor General Act*, we believe performing more added-value systems audit work aligns with Albertans' need to know whether government is using their resources wisely. Currently, we are striving to fine tune the relative percentage of our resource (i.e., operating costs) allocations to achieve a mix of 30 per cent systems auditing and 70 per cent financial statements auditing by 2018.

As legislative auditors, we have a profound understanding of the environment we are auditing, including performance audit standards, management control systems, performance reporting and accountability for results. In our view, value is added when we perform systems audits on matters that relate to critical government goals, strategies and risks in areas that are important to Albertans. A key output of our systems audit work is to identify where government can make improvements to enhance the efficiency, effectiveness, and economy of important management systems. True value is attained when government implements our recommendations.

OUR PLANS AND FINANCIAL RESULTS–OVERVIEW

In our business plan and budget for 2015 (http://www.oag.ab.ca/other), we allocated operating expenses of $27.4 million (including amortization of tangible capital assets) between our two core lines of business, ministry by ministry. This allocation was aligned to match the government's 2014–2017 strategic plan priorities (subsequently restated to match the government organizational structure at March 31, 2015). Our budget and actual costs are summarized and compared below.

	2015				2014	
	Budget	Budget %	Actual	Actual %	Actual	Actual %
	(thousands)				(thousands)	
Financial statements auditing						
Government priority areas						
Alberta's Economic Future	$ 6,499	24%	$ 6,356	24%	$ 6,692	26%
Families and Communities	6,111	23%	5,235	20%	6,427	25%
Resource Stewardship	7,494	27%	7,367	27%	6,500	25%
	20,104	74%	18,958	71%	19,619	76%
Executive Council and Legislative Assembly	381	1%	369	1%	344	1%
	20,485	75%	19,327	72%	19,963	77%
Systems auditing						
Government priority areas						
Alberta's Economic Future	913	3%	811	3%	1,168	5%
Families and Communities	3,457	13%	2,938	10%	2,588	10%
Resource Stewardship	2,315	8%	3,447	13%	2,073	8%
	6,685	24%	7,196	26%	5,829	23%
Executive Council and Legislative Assembly	245	1%	488	2%	35	0%
	6,930	25%	7,684	28%	5,864	23%
	$ 27,415	100%	$ 27,011	100%	$ 25,827	100%

For the families and communities priority area, the $5.2 million cost of 2015 financial statements auditing was $0.9 million lower than budgeted and $1.2 million lower than prior year actual. These favourable variances reflect the dissolving of the persons with developmental disabilities and child and family services authorities organizations (integrated into other areas) and the advancement of the final audits for these entities to 2014 (originally budgeted for 2015). The current year $2.9 million systems auditing in families and communities was $0.5 million lower than budgeted, mainly due to the postponement of planned audit work on physician services and health information technology spending (these audits are now planned to be completed on a combined basis).

In the resource stewardship area, the 2015 systems auditing projects costs totalling $3.5 million was $1.1 million higher than budgeted and $1.4 million higher than prior year actual. These unfavourable variances reflect the requirements on several projects (involving flood mitigation systems and dam safety monitoring and regulation) to carry out extra 2015 work and procedures that were identified after our field work commenced. The timing of this extra work and our reporting targets were such that the extra costs could not be incorporated into our budget process.

The systems auditing cost for Executive Council and Legislative Assembly of $488,000 was $243,000 higher than budget and $453,000 higher than prior year actual. These differences arose from the unexpected (and unbudgeted) externally requested special duty audit report work involving the Office of the Premier expenses and the Treasury Board and Finance program for government owned aircraft. The $245,000 amount in the 2015 budget that was planned for systems audit work in this area was deferred.

Office performance measure

Percentage of costs dedicated to systems/financial statements auditing

In pursuit of our strategy to perform more added-value systems audit work and our goal of a sustainable relative mix of 30% systems auditing and 70% financial statements auditing by the end of three years, our 2015 target for resource allocation between the two core lines of business was 25% systems auditing and 75% financial statements auditing. Our actual result was 28:72%, a favourable shift from financial statement auditing to systems auditing of three percentage points compared to target and five percentage points compared to prior year (23:77%). This is significant since the three percentage points change reflects a shift of $810,000 of office costs and resources from financial statements to systems auditing.

Our improved 2015 systems to financial statements audit costs ratio benefited from certain external factors. Government decisions to dissolve the persons with developmental disabilities and child and family services authorities entities, as well as reduced public sector accounting standard transitioning requirements, allowed for some extra systems audit work. Also, the externally requested special duty engagement created some unanticipated systems audit work. Internally, a continued focus on audit project management and staff utilization allowed us to re-deploy resources to additional systems audit work.

Percentage of office costs	Prior actual results				2015	
	2011	2012	2013	2014	Target	Actual
Financial statements auditing	82%	79%	76%	77%	75%	72%
Systems auditing	18%	21%	24%	23%	25%	28%
	100%	100%	100%	100%	100%	100%

Over the past five years, our results show us trending on a consistent and sustainable basis towards completing more added-value systems auditing work. These recent results, combined with our plans for the next few years, lead us to believe our 2018 target of 30% systems auditing is achievable.

We received an unqualified auditor's report on our externally audited 2015 financial statements. The auditor did not identify any recommendations to improve our financial processes and controls. We do not have any recommendations outstanding from prior years.

In 2015 we also received a positive endorsement of our office's operating systems and processes through an external peer review engagement completed pro bono by the Provincial Auditor of Saskatchewan.

FINANCIAL STATEMENTS AND PERFORMANCE MEASURES AUDITING RESULTS

PLANS AND PERFORMANCE

Our audits include the consolidated financial statements of the Government of Alberta, as well as every ministry, department, fund and provincial agency, including ATB Financial, Alberta Health Services and public post-secondary education institutions. Our office's report for each of these entities provides the auditor general's opinion on whether the financial statements are presented fairly in accordance with the appropriate financial reporting framework, usually public sector accounting standards. These recurring annual audits provide independent assurance on the government's financial reporting to the Legislative Assembly.

The auditor general issued 149 unqualified auditor's reports on financial statements in 2015 (2014–152). He also issued 19 unqualified auditor's reports on specified financial information for certain organizations (2014–17). No qualified auditor's reports were issued for either year.

We complete review engagement procedures on selected non-financial measures of performance in the annual reports of ministries and one agency. We also audit selected measures in the government's annual progress report on its business plans, titled Measuring Up. The auditor general reports on the reliability, understandability, comparability and completeness of selected performance measures. These reviews and the audit are not designed to provide assurance on whether the measures are relevant or useful to users.

The auditor general issued 20 unqualified review (limited assurance) engagement reports and one unqualified auditor's report on performance measures in 2015 (2014–20 reviews and one audit).

2015 REPORTS

Appendix A lists the entities whose financial statements we audited.

Appendix B lists the entities whose performance measures we examined.

Office performance measures

Alberta's consolidated financial statements—report by June 30

We strive to issue the auditor's report on the consolidated financial statements of the government by June 30 every year, to give timely assurance to the Legislative Assembly on the quality of the government's financial reports. We issued our report on June 19, 2014 for the government's March 31, 2014 year end and on June 23, 2015 for its 2015 year end.

Financial statements audits—number of audits completed within budget

For 2015, we completed 64% of our financial statements audits within budget, an improvement over the 59% achieved for 2014 and comparable to the 67% result for 2013 and 68% for 2012.

In assessing these recent results, we had some informal benchmarking discussions in the year with other public accounting firms in Alberta that also train students. We determined that our within budget performance rates are in the 'respectable to good' range, particularly for the past few years when there have been a series of fairly complex new and changed accounting standards impacting financial statements audits. Considering the feedback and given the nature of the public accounting and auditing business, we believe that targeting to complete 90% of audits, even with fair and comprehensive budgeting processes, is unrealistic (even as a stretch target for the year's portfolio of financial statements audits).

As a result of this review, and in tandem with the independent peer review component focused on the reasonable costs aspect of our systems and operations, we will be re-setting our upcoming completion within budget targets. In doing this, we will be working to have this performance measure's future targets be realistic, but also with a stretch factor.

Auditing standards—pass professional practice review

Our office was registered as a practicing audit and training office with the Institute of Chartered Accountants of Alberta through fiscal 2015. Our goals is to meet all Institute standards, including those for practice review, and maintain our registrations in good standing.

The practice reviews follow a three year cycle and focus on financial statements audits. We passed our most recent review in 2013 and expect the accounting profession's next review will be in 2016.

SYSTEMS AUDITING RESULTS

PLANS AND PERFORMANCE

Sections 19(2) (d) and (e) of the *Auditor General Act* require us to report when "accounting systems and management control systems, including those systems designed to ensure economy and efficiency, ...were not in existence, were inadequate or had not been complied with" or "when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with." We meet this expectation in two ways:

- **Stand-alone systems audits**—We audit major programs or initiatives that an organization undertakes to achieve its goals. In a stand-alone systems audit, we answer the question "Does the organization have the policies, processes and controls to accomplish its goals and mitigate its risks economically and efficiently?" Such systems include procedures to measure and report on the effectiveness of programs.
- **By-products of other audits**—If we find that an organization could improve its systems in areas such as governance and accountability, internal control over financial management, information technology or performance reporting, we make recommendations to management.

We concentrate on areas that will result in improved:

- oversight and ethical behavior—these underpin the success of any organization
- safety and welfare of all Albertans—especially the most vulnerable in our society
- security and use of the province's resources—they belong to all Albertans and must be protected

2015 REPORTS

Appendix C lists the systems audits publicly reported in 2015. Summaries of four of those audits follow.

Results Analysis Reporting

Treasury Board and Finance

Background

We examined the quality of results analysis in management's commentary on performance in ministry annual reports, for two reasons:

- The Standing Committee on Public Accounts, an all-party committee consisting of 15 members of the Legislative Assembly, is questioning the quality of this reporting, finding it lacks focus and insights from management.
- We want to highlight, and reinforce within an effective results management framework, the importance of publicly reporting on results achieved compared to what was planned.

The government should tell Albertans whether it is achieving desired results. It is important to set goals and targets, then analyze the results to learn what is working and what is not.

Findings

Ministry annual reports describe activities and programs, but provide limited information:

- identifying progress towards goals and results achieved
- analyzing and evaluating progress against business plans, goals, priority initiatives and commitments
- relating progress and results achieved to dollars spent

Guidance and training for results analysis report preparation is limited. Compliance with the results analysis reporting standards is not monitored consistently.

Recommendations

Public service managers and the government must improve the quality of their results analysis reports. They should:

- identify and analyze results
- present a clear analysis of results for significant matters, including business plan priority initiatives
- shift the balance—increase the reported analysis of results, and decrease the number of programs and activities described without analysis
- develop standardized guidance and training to direct and support improving public performance reporting
- monitor results analysis reporting compliance with standards

From our project research, we developed a results management and analysis reference guide as a report appendix. The guide's results management framework lists good governance, oversight and accountability for results as its building blocks. Within this framework, evaluating and publicly reporting on results is a key component of good public sector stewardship.

Total audit project costs – $531,000
Report of the Auditor General of Alberta—July 2014

Special Duty Report on the Expenses of the Office of Premier Redford and Alberta's Air Transportation Services Program

Treasury Board & Finance and Executive Council

Background

On March 4, 2014, Premier Redford asked the auditor general to perform a special duty under Section 17(2)[1] of the *Auditor General Act*. He accepted Premier Redford's request on March 7, 2014. Subsequently, Ms. Redford resigned from her position as premier and we formally communicated the scope of our audit work plans to Premier Hancock on April 15, 2014.

Our objectives were to:

- review the Government of Alberta's travel, meal and hospitality expense and disclosure policies and provide advice on whether the policies provide a framework for the most effective and efficient use and disclosure of public resources in the course of mandated government business
- assess whether Premier Redford and the Office of the Premier's employees complied with the Government of Alberta's:
  - travel, meal and hospitality expense policy
  - public disclosure of travel and expense policy
  - Air Transportation Services (ATS) policies
- assess if the Department of Treasury Board and Finance has adequate processes to assess the ATS program to ensure the program is meeting its objectives, considering risks, costs and benefits

After our audit field work commenced, the auditor general decided to exercise his legislated discretion and expand the scope of our engagement to also examine the Edmonton Federal Building redevelopment plan, specifically the non-office development of the top floor of the building.

Findings

On August 1, 2014, we reported that Premier Redford and her office used public resources inappropriately. They consistently failed to demonstrate in the documents we examined that their travel expenses were necessary and a reasonable and appropriate use of public resources—in other words economical and in support of a government business objective. Premier Redford used public assets (aircraft) for personal and partisan purposes. Premier Redford was also involved in a plan to convert public space in a public building into personal living space.

The Department of Treasury Board and Finance has not explained to Albertans why it believes the extra cost over alternatives to owning a fleet of aircraft is judged to be worthwhile.

Recommendations

No public servant, not even a premier, should be excused from vigilant oversight of their compliance with policies and processes designed to protect both the public interest and themselves from bad judgment.

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[1] Section 17(2) of the *Auditor General Act* states "The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of the Auditor General's powers and duties under this or any other Act."

Senior members of the public service should focus on these three areas of risk:

- allowing any individual's expenses to be incurred and approved by many staff across multiple ministries
- not having processes to identify and cost the partisan use of government aircraft when that use occurs together with government business
- not restricting out-of-province use of government aircraft to those cases where a cost benefit analysis has been performed

Total audit project costs – $497,000
Report of the Auditor General of Alberta—August 2014

Chronic Disease Management

Health

Background

The purpose of chronic disease management is to provide care that helps people with chronic disease improve their quality of life and live as long as possible. Effective chronic disease management can also reduce overall costs to the public healthcare system. The most common chronic diseases in Alberta include hypertension (high blood pressure), diabetes, chronic obstructive pulmonary disease, asthma, heart failure, coronary artery disease, obesity and depression. The personal consequences of these diseases can range from pain, impaired mobility, reduced ability to work, and social isolation to dependence on drugs, repeated trips to hospital, amputations and early death.

The financial costs to Alberta's healthcare system run into billions of dollars. Chronic diseases require the services of thousands of healthcare professionals and the infrastructure and systems to support them. People with chronic diseases account for nearly two-thirds of hospital inpatient days, one-third of all visits to physicians and more than one-quarter of visits to emergency rooms.

Findings

Our overall conclusion is that Alberta provides some excellent care for individuals with chronic diseases. However, that care tends to be fragmented. No entity has overall responsibility for ensuring that all the parts work together well, that all patients receive the same level of care, and that providers are making good use of available resources to understand chronic diseases and manage patient care.

Recommendations

Alberta has developed some good approaches to chronic disease management. However, these approaches can be improved.

The Department of Health needs to better define services it expect physicians, primary care networks and Alberta Health Services to provide to individuals with chronic disease, and hold them accountable for the patient outcomes achieved. The department also needs to provide better support to physicians and AHS in standardizing and sharing clinical information, identifying patient panels, establishing multidisciplinary care teams, and strengthening and aligning the physician and pharmacist care plan initiatives. The department also needs to involve Albertans in decisions about their care by providing individuals with chronic disease access to their own clinical information and their care plans. We also recommended that AHS align its services to individual chronic disease patients with the care provided by physicians, and offer comprehensive care to chronic disease patients who do not have a family physician.

Total project costs – $477,000
Report of the Auditor General of Alberta—September 2014

Systems to Improve Student Attendance in Northland School Division

Education

Background

Regular school attendance is critical to student success. Poor student attendance has been a significant and longstanding problem in Northland School Division. About one-third of the division's students remain chronically absent despite many years of reporting on this situation, and despite what was to have been a concerted attempt to deal with attendance following the 2010 Inquiry Team Report.[2] Factors that contribute to poor attendance are numerous and complex.

At the school division and Department of Education levels, the story is simpler; necessary improvements have not been made, despite the need being highlighted in the inquiry report and in commitments made afterward. The division has not produced a workable plan; oversight at all levels, including the department, has failed. Lack of coordination, weaknesses in reporting systems; and the absence of a student-centred approach are all contributors.

Findings

We found no actionable plan on improving attendance by the division and oversight of improved attendance has failed at every level in the division and by the department. The result after five years is limited progress; attendance remains unacceptably low.

Recommendations

We recommended that the Department of Education exercise oversight of the division implementation plans to improve student attendance. In our view, department oversight of the division's accountability for improved attendance results is the key to not failing another generation of the division's children.

Total project costs – $706,000
Report of the Auditor General of Alberta—March 2015

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[2] The Northland School Division Inquiry Team Report to the Honourable Dave Hancock, Minister of Education, Department of Education, November 2010.

Office performance measures

Auditing recommendations—acceptance by ministries and other entities

One way we measure the relevance of our work is to review the number of recommendations the government accepts for implementation, with a target acceptance rate of 95%. Out of 58 recommendations made in our February, July, August, September and October 2014 public reports, the government accepted 53 (91%) and five (9%) were accepted in principle.

Auditing recommendations—not implemented within three years of acceptance

Once our recommended improvements to government systems and controls have been accepted, we follow up and report publicly on their implementation. Follow-up audits confirm that sustainable change has taken place. This work is not superficial. We approach follow-up audits with the rigour Albertans expect from this office, and will repeat our recommendations when management has not satisfactorily implemented them.

Ideally, we will be able to commence or complete follow-up audits within three years. At March 31, 2015, there were 50 recommendations outstanding for over three years, of which the government advises 18 are ready for follow-up audits in 2016.

Our initiative to reduce the number of outstanding recommendations continues to be a closely monitored process impacted by both the number of recommendations and the government's progress in implementing them. Our ultimate objective is to have no outstanding recommendations older than three years.

PRIORITY INITIATIVES FROM 2014–2017 BUSINESS PLAN

PRIORITY INITIATIVE—EFFECTIVE AND SUSTAINABLE PEOPLE DEVELOPMENT

The right complement of staff skills and ongoing people development are critical for high quality and cost effective auditing. Maintaining a workplace that facilitates recruiting, growing and retaining skilled legislative auditors is vital to our success. Our focus in meeting these ongoing human resources challenges is to be flexible in adapting to market, education and societal changes.

In our professional services business we recognize the need for strategies directed at staff development and retention, particularly in the student through manager ranks. Our training program is designed to improve the overall effectiveness, efficiency and personal excellence of all staff within a positive and supportive work environment. In-house training, mentoring and support for our students dealt with changes in the professional accounting education programs taking place in 2015.

Performance update

In addition to our first rate training program, we have implemented a new performance management system augmented by specific staff coaching and training to give our people the skills they need to get the most out of the new performance management tools.

We developed and implemented comprehensive competency and expectations guidelines that help us to measure performance in a more meaningful way. Managers are encouraged to take every opportunity to interact with staff and demonstrate inspirational leadership. We believe that over time this initiative will have a positive effect on our ability to cultivate and retain high quality, professionally trained employees.

Revising the compensation structure to align more closely with the market and Government of Alberta pay bands allowed us to pay for performance and retain Albertans' investment in highly qualified legislative audit staff. As a result, staff turnover was at its lowest in five years, reinforcing our philosophy of "right people, right roles, right work."

PRIORITY INITIATIVE—INDEPENDENT PEER REVIEW

We commissioned an independent peer review to provide conclusions on whether we do relevant, reliable work at a reasonable cost. The peer review was completed in two stages. The first stage, which focused on the design of the office's systems, took place in August 2013. The second stage, focusing on the operating effectiveness of systems, occurred in August 2014. The findings from this external peer review will be used to improve our audit and operational processes, and were made public.

Performance update

In conducting an independent peer review, our intent was twofold: to provide Albertans with assurance that their legislative audit office functions well and to identify areas for improvement. The Provincial Auditor of Saskatchewan stated the following in their November 17, 2014 audit conclusion:

"In our opinion, for the twelve-month period ended June 30, 2014, the Office of the Auditor General of Alberta's systems were designed suitably and operated effectively to provide reasonable assurance that the work performed by the Office of the Auditor General of Alberta is relevant, reliable and was carried out at a reasonable cost."

We have taken action to implement the suggestions made by the reviewer to improve in two areas:
- Consistent documentation of timing of audit file review
- Better documentation of engagement quality control review decisions

We have found the independent peer review to be useful and will establish an appropriate interval between reviews based on study of best practices. We will focus our efforts on sustaining what we have achieved, identifying opportunities for improvement and confirming internally that our systems continue to operate as intended.

The 2015 peer review report from the Provincial Auditor of Saskatchewan is available online at http://www.oag.ab.ca/other.

PRIORITY INITIATIVE—OUTSTANDING RECOMMENDATIONS

There were 201 outstanding systems audit recommendations, 47 of which were more than three years old at the start of fiscal 2015. Our practice is to assess the implementation of recommendations, particularly those more than three years old. We then schedule timely follow-up audits of departments or agencies that notify us they are ready.

Performance update

We completed follow-up audits for 12 of the 47 older recommendations. Offsetting this, 15 prior recommendations were moved to the category of outstanding for more than three years. There were 190 outstanding systems audit recommendations, 50 of which were more than three years old, at the end of fiscal 2015.

PRIORITY INITIATIVE—CORPORATE ACCOUNTING POLICIES

We view as very important, the government controller's success in articulating and overseeing the timely and effective implementation of new and changed corporate accounting policies. To meet our financial statements reporting deadlines, our considerations and examination of these developments must be well coordinated.

In fiscal 2015, we worked proactively with the controller's office on the consistency of accounting policies (in particular those for contaminated sites and capital assets) and proforma financial statements. Our office, the controller's office and government entities benefited from this approach. Similar steps in future years should continue to provide a positive performance impact on auditee readiness for their year-end audits.

OUR PEOPLE

As a professional services office, we compete with the private sector for designated accountants and other professionals with specialized technical skills. As a training office for accounting students, we also compete to attract top talent from post-secondary education institutions.

People development has been, and will continue to be, a focus of our office. Like many professional services firms, one of our main operating challenges is attracting, training and retaining quality staff to carry out our legislative audit responsibilities. We recognize that our staff are well educated and receive good training, making them attractive to other employers. Without making good hires and investing in their skills development, we would expose the office to audit performance and other business risks.

Investment in our staff ensures our work meets the fundamental objectives of:
- **Quality**—Do we meet professional standards for financial statements and systems audit engagements?
- **Accountability for results**—Do we provide relevant, reliable auditing services at a reasonable cost?

Office performance measure

Staff turnover and vacancy rate

This measure considers the number of departures and vacancies as a percentage of the total number of people employed by the office during the year.

For 2015, the office's overall staff turnover rate was 15 per cent, the lowest in five years (average for the prior four years was 20 per cent). Revising the compensation structure to align more closely with the market and government pay bands allowed us to better match pay with performance and retain staff. This action, combined with our ongoing focus on performance management and people development, helped us to maintain a strong complement of managers and in-charges producing cost and time efficiencies in our work as well as reliable audit continuity. This improved performance supports our philosophy of "right people, right roles, right work."

We recognize the importance of understanding and measuring turnover and vacancy. Replacing employees brings significant costs and disruption to any organization in hiring, onboarding, training, mentoring, supervising and reassigning work portfolios. These costs are also reflected in additional temporary staff and time spent on audits affected by staff turnover and negatively impact our ability to perform audits within budget.

The turnover and vacancy rate is also used to understand our staff profile. As a training office for the accounting profession, and given our staff mix and the overall nature of our business, we consider a target turnover rate of under 20 per cent to be realistic and reasonable. Once designated, some of our staff choose to leave our office for positions in the province's public sector. In these cases, Albertans receive an ongoing benefit from the initial training investment in those individuals through our office.

We have offices in Edmonton and Calgary. Average monthly full-time equivalent staffs were 133 in Edmonton (2014–136) and 13 in Calgary (2014–14).

As is the case in many public accounting firms, there is a significant seasonal element in our financial statements line of business. As a cost effective means of completing financial statements audits on time, the office hires temporary staff from public accounting firms as well as contracting some public accounting firms as agents to complete audit work under office oversight. Lower staff turnover in 2015, especially during critical audit seasons, reduced the need for temporary staff.

2015 staff milestones

The office's 2014 United Way fundraising campaign was recognized as the highest fundraising employee campaign per capita among similarly sized Alberta government departments and organizations. This was the sixth consecutive year the office received this acknowledgement.

In December 2014, one staff member was recognized for their 25-year Alberta government milestone and three for their 15-year milestones. Three staff members were recognized for reaching 10- and 5-year milestones. At March 31, 2015, almost one-third of our employees had 10 or more years of experience in the Alberta public service.

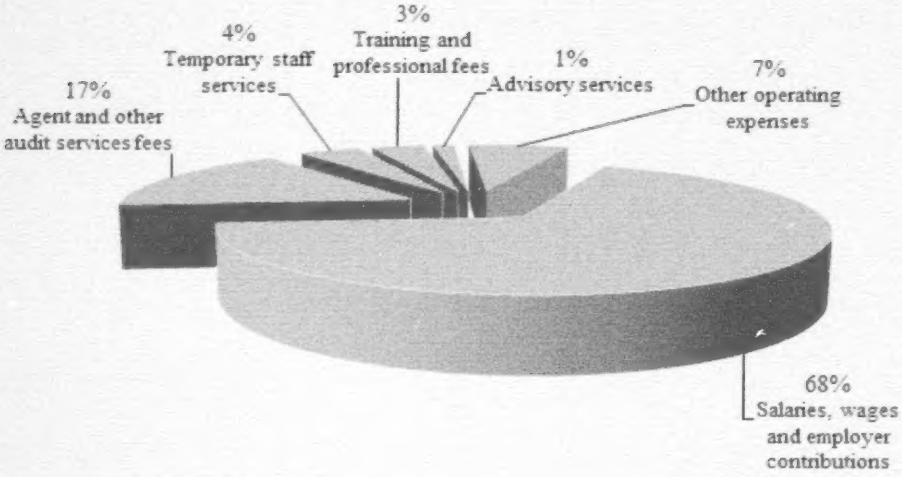
In 2015, 17 employees passed their professional accounting designation exams. Twelve employees fulfilled the education and experience requirements to obtain their professional accounting designation. We are proud and supportive of our staff in these significant accomplishments.

FINANCIAL DISCUSSION AND ANALYSIS

The discussion should be read in conjunction with our audited financial statements.

For April 1, 2014 to March 31, 2015, the Legislative Assembly provided $27 million for our office's operating expenses and $255,000 for capital investment, for a total of $27.3 million.

The chart below illustrates our expense mix. As expected in a "people organization" such as ours, salary, wages, employer contributions, training and professional service contracts for agents and temporary staff represent the vast majority (93%) of our total expenses.



Salaries and wages in 2015 were $919,000 (7%) higher than in 2014. Over half of the increase was related to organization restructuring costs that position us to execute our strategy to perform more systems audit work in an environment of cost containment. The remaining increase reflected a government pay band adjustment during the year. Salaries and wages were $182,000 (1%) lower than budget mainly due to delays in recruiting to two senior audit positions.

Employer benefit contributions were up by $115,000 (3%) over last year due to higher pension premiums and the salary base increase. However, the employer contributions were below budget by $101,000 (3%) as premiums were avoided while we sought to fill staff vacancies.

We contract with external accounting firms to second qualified auditors to augment our audit teams temporarily during our peak work periods. Our temporary staff services spending was similar to prior year but below budget by $206,000 (16%). The savings resulted from our reduced staff turnover rate. As a result of fewer staff vacancies we had a strong complement of internal audit managers and in-charges during peak audit season, thereby limiting secondments to junior level temporary staff and reducing overall cost.

We engage accounting firms as our agents to conduct certain audits. The agent audits the entity, under our oversight, to compile the supporting evidence needed for the auditor's report by the auditor general. We use agents to meet peak work demands, to save on travel costs and to provide specialized skills for certain unique audit components. Agent and other audit services fees were lower than for 2014 by $264,000 (6%) and under budget by $86,000 (2%) primarily due to:

- The government dissolving ten Child and Family Services Authorities and six Persons with Developmental Disabilities entities, and the advancement of the final audit work for these entities done by our agent to 2014, rather than in the current year per the 2015 budget.
- Reducing fees as a result of some significant contracts coming up for renewal under our competitive contract bidding process.

We re-deployed part of the funding freed from the above areas to additional systems audit work and audit specialist consulting fees.

Training and professional fees increased by $96,000 (11%) over the previous year and exceed the budget by $57,000 (7%) for two reasons:

- Last year the three Canadian accounting bodies, Chartered Accountants (CA), Certified Management Accountants (CMA) and Certified General Accountants (CGA) signed an agreement to unify into one Canadian professional accounting designation—Chartered Professional Accountant (CPA). Transitional changes in the student programs encouraged completion under the pre-unification programs, such that more sessions were offered for completion on an accelerated basis. As a result, we incurred additional exam registration and support costs for our student employees.
- We introduced more in-house training on performance management and leadership skills to improve the overall effectiveness, efficiency and personal excellence of all staff.

Technology services were $79,000 (18%) more than prior year and $65,000 (14%) higher than budget due to additional software licenses for a new firewall and secure file sharing, and price increases for other licenses.

Last year we implemented a scheduled replacement of our laptop computers. Because the new computers were put in use at the beginning of the current year, no amortization was recorded for them in 2014. Compared to the prior year, capital spending was $190,000 (41%) lower, whereas the amortization expense was $150,000 (106%) higher. Current year capital spending was on budget. However, amortization expense was below budget by $78,000 (21%) because the new firewall and video conferencing replacement devices were not used until early 2016. As a result, for these capital asset additions, no amortization was recorded in 2015.

Our financial result is comparable to our results in prior years in that we returned $306,000 (1%) of our budget to the Legislative Assembly. A small surplus or deficit in any fiscal year is normal due to the timing of our planned audit work. As audits often span two or more fiscal years, we budget according to planned audit timelines but must be flexible in carrying out our work.

WHAT WE LEARNED

Throughout each year, we spend significant leadership time analyzing our results and identifying our core strengths. As legislative auditors we have a profound understanding of the environment we are auditing. We also have a unique ability to communicate complex technical concepts in an understandable manner. By building on these core strengths we will succeed in our strategy to perform more added-value systems audit work. Anchored by the *Auditor General Act*, we believe performing more added-value systems audit work aligns with Albertans' need to know whether government is using their resources wisely.

In considering our 2015 results, we incorporated the following lessons into our operations and business plan for next year.

- **Staff skills and development—Right people, right roles, right work**
  Evidence shows that if we continue to focus on monitoring and analyzing what constitutes the optimal mix of staff at various levels we can ensure we have the right people, with the right skills, in the right place, at the right time, doing the right things. The right complement of staff skills and ongoing people development are critical for high quality and cost effective auditing. Maintaining a workplace that recruits, grows and retains skilled legislative auditors is vital to our success.

  We have learned that our refreshed performance management system, our updated and aligned compensation strategy, plus our first rate training and career advisor programs have created a positive and supportive work environment and contributed to improved results. Our efforts to maintain and improve on recent changes in these areas are to continue.

- **Business complexities—Diversify the Office Leadership Team**
  As is the case for large public companies and their independent auditors, public sector auditing and financial reporting requirements continue to grow in number and complexity. For legislative auditors, there are also unique complexities associated with each systems audit, particularly the larger stand-alone systems audits. Added to this are standard business and management issues that must be handled well to ensure operations run smoothly.

  In light of these growing complexities and our office's role in relation to the government's operations, we determined the need to strengthen our Office Leadership Team with two new business leaders—one focused on the business of financial statements auditing and the other on the business of systems auditing. The Office Leadership Team brings together capable people to lead relevant auditing, reliably, at a reasonable cost. Every role on the team is different; hence its strength. Working collaboratively for the best interests of the office and all Albertans, the leadership team's four areas of focus are on strategy, people, results and learning.

- **Financial statements audits—A better target and improved results**
  We believe that the recent 90 per cent performance measure target for completing our portfolio of financial statements audits within budget is unrealistic, even as a stretch target. We will reassess this target for 2016 to make it more realistic and useful as a results management tool.

  Quite separate from resetting this performance measure, several initiatives commenced in 2015 aimed at increasing the number of financial statements audits completed within budget. Learning from past results, we introduced a new audit project management process which helped our audit teams monitor and manage costs, staffing and project milestone dates more proactively. This new process has allowed our engagement leaders to better track reasons for variances and effectively apply lessons learned to future audits. In 2015 we developed new computerized audit testing applications to reduce manual testing. Several other audit methodology changes were directed at more efficient audit file documentation.

- **Portfolio management—Use of agents**
  Our results reinforce that if we strategically use agent services and expertise, we can continue to identify opportunities to redeploy some of our legislative audit specialists to bolster our systems audit capacity.

- **Portfolio management—Audit requirements and priorities**
  To be sure Albertans obtain maximum value from each financial statement audit, we will continue to evaluate whether an audit is necessary and whether it should be conducted by the Office of the Auditor General. Every audit we do should add value. Staff time that is freed up will be redeployed to complete systems audits.

- **Valued feedback from peers—Implement independent review suggestions**
  We commissioned an independent peer review to provide conclusions on whether we do relevant, reliable work at a reasonable cost. As a result, we learned about ways we can improve our audit and operational processes. We will focus on sustaining what we have achieved, identifying opportunities for improvement and confirming internally that our systems continue to operate as intended.

- **Monitor systems audit implementation—Target more timely follow-up audits**
  We've learned that by staying engaged with our auditees we can focus on the implementation of recommendations more than three years old and schedule timely follow-up audits when auditees advise they are ready.

- **Accounting standards compliance—Improve readiness for year-end audit work**
  Auditee readiness impacts our ability to do audits within budget. We view the government controller's success in articulating and enforcing corporate accounting policies as important, because it impacts financial statements consistency, the efficiency of financial statements preparation, and the audit. Therefore, as requested, we coordinate key aspects of standards reviews, discussions and transitions with the controller's office.

- **Systems audit coverage—Perform smaller systems audits**
  To do more added-value systems audit work we plan to conduct smaller systems audit engagements (approximately 500 hours or less) in addition to our larger systems audits. This will create greater flexibility in our deployment of resources to system audits and help develop the systems audit skills of the office's audit workforce. These smaller audits will also increase the breadth of our systems audit portfolio coverage throughout the government's entities without impacting our ability to carry out larger systems audits.

At the Office of the Auditor General, the purpose that inspires us is knowing that our work is making a difference in the lives of Albertans. To this end, our continuous improvement is critical.

APPENDIX A—2015 FINANCIAL STATEMENTS REPORTS

We issued an unqualified independent auditor's report on the financial statements and financial information for the year ended March 31, 2015 (unless otherwise stated) for the following entities:

Consolidated financial statements of the Province of Alberta

Alberta's Economic Future

Aboriginal Relations

- Ministry of Aboriginal Relations

Agriculture and Rural Development

- Ministry of Agriculture and Rural Development
- Department of Agriculture and Rural Development
- Agriculture Financial Services Corporation
- Alberta Livestock and Meat Agency Ltd.

Infrastructure

- Ministry of Infrastructure

Innovation and Advanced Education

- Ministry of Innovation and Advanced Education
- Department of Enterprise and Advanced Education
- Access to the Future Fund
- Alberta Enterprise Corporation
- Alberta Foundation for Health Research
- Alberta Innovates—Bio Solutions
- Alberta Innovates—Energy and Environment Solutions
- Alberta Innovates—Health Solutions
- Alberta Innovates—Technology Futures
- Athabasca University
- University of Alberta
- University of Calgary
- University of Lethbridge

For the year ended June 30, 2014

- Alberta College of Art + Design
- Bow Valley College
- Grande Prairie Regional College
- McEwan University
- Grant MacEwan University Foundation
- Keyano College
- Lakeland College
- Lethbridge College
- Medicine Hat College
- Mount Royal University
- NorQuest College
- Northern Alberta Institute of Technology
- Northern Alberta Institute of Technology Foundation
- Northern Lakes College
- Olds College
- Portage College
- Red Deer College
- Southern Alberta Institute of Technology

Intergovernmental and International Relations

- Ministry of International and Intergovernmental Relations

Culture and Tourism

- Ministry of Culture and Tourism
- Department of Culture and Tourism
- Government House Foundation
- Historic Resources Fund
- Alberta Sport Connection[3]
- Travel Alberta
- Alberta Foundation for the Arts
- The Alberta Historical Resources Foundation
- The Wild Rose Foundation

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[3] Auditor's report for this entity had not been issued as at July 8, 2015.

Families and Communities

Education

- Ministry of Education
- Department of Education
- Alberta School Foundation Fund

For the year ended August 31, 2014

- Alberta Teachers' Retirement Fund Board
- Northland School Division No. 61

Health

- Ministry of Health
- Department of Health
- Alberta Health Services
- Calgary Laboratory Services Ltd.
- Carewest
- Health Quality Council of Alberta

Human Services

- Ministry of Human Services
- Office of the Public Trustee

Jobs, Skills, Training and Labour

- Ministry of Jobs, Skills, Training and Labour

For the year ended December 31, 2014

- Workers' Compensation Board—Alberta

Justice and Solicitor General

- Ministry of Justice and Solicitor General
- Department of Justice and Solicitor General
- Human Rights, Citizenship and Multiculturalism Education Fund
- Victims of Crime Fund

Seniors

- Ministry of Seniors
- Department of Seniors
- Non-profit Housing Program
- Alberta Social Housing Corporation
- Rent Supplement Program
- ASHC Project Blended Costs
- Rural and Native Housing Program

Service Alberta

- Ministry of Service Alberta

Resource Stewardship

Energy

- Ministry of Energy
- Department of Energy
- Alberta Utilities Commission
- Alberta Energy Regulator
- Post-closure Stewardship Fund

For the year ended December 31, 2014

- Alberta Petroleum Marketing Commission
- Senior Employee Pension Plan Fund for AER and AUC

Environment and Sustainable Resources Development

- Ministry of Environment and Sustainable Resource Development
- Department of Environment and Sustainable Resource Development
- Environment Protection and Enhancement Fund
- Land Stewardship Fund
- Climate Change and Emissions Management Fund
- Natural Resources Conservation Board
- Alberta Environmental Monitoring, Evaluation and Reporting Agency

Municipal Affairs

- Ministry of Municipal Affairs
- Department of Municipal Affairs

For the year ended December 31, 2014

- Improvement Districts 4, 9, 12, 13, 24, 25 and 349
- Kananaskis Improvement District
- Special Areas Trust and Board

Transportation

- Ministry of Transportation
- Department of Transportation
- Alberta Transportation Safety Board

Treasury Board and Finance

- Ministry of Treasury Board and Finance
- Department of Treasury Board and Finance
- Alberta Cancer Prevention Legacy Fund
- Alberta Gaming and Liquor Commission
- Alberta Gambling Research Institute
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Savings Trust Fund
- Alberta Heritage Scholarship Fund
- Alberta Heritage Science and Engineering Research Endowment Fund
- Alberta Investment Management Corporation
- Alberta Lottery Fund
- Alberta Risk Management Fund
- Alberta Securities Commission
- ATB Financial
  - ATB Insurance Advisors Inc.
  - ATB Investment Management Inc.
  - ATB Securities Inc.
- Consolidated Cash Investment Trust Fund
- Long-term Disability Income Continuance Plan - Bargaining Unit
- Long-term Disability Income Continuance Plan - Management, Opted Out and Excluded
- N.A. Properties (1994) Ltd.
- Provincial Judges and Masters in Chambers (Registered) Pension Plan
- Provincial Judges and Masters in Chambers Reserve Fund
- Supplementary Retirement Plan Reserve Fund
- The Public Service Health Spending Account Plan

For year ended September 30, 2014

- Gainers Inc.

For the year ended December 31, 2014

- Alberta Capital Finance Authority
- Alberta Local Authorities Pension Plan Corporation
- Alberta Pensions Services Corporation
- Credit Union Deposit Guarantee Corporation
- Government of Alberta Dental Plan Trust
- Government Employees' Group Extended Medical Benefits Plan and Prescription Drug Plan Trust
- Local Authorities Pension Plan
- Management Employees Pension Plan
- Public Service Management (Closed Membership) Pension Plan Public Service Pension Plan
- Special Forces Pension Plan
- Supplementary Retirement Plan for Public Service Managers

Executive Council

- Ministry of Executive Council

Legislative Assembly

- Legislative Assembly Office
- Office of the Chief Electoral Officer
- Office of the Child and Youth Advocate
- Office of the Ethics Commissioner
- Office of the Information and Privacy Commissioner
- Office of the Ombudsman
- Office of the Public Interest Commissioner

APPENDIX B—2015 PERFORMANCE MEASURES REPORTS

Government of Alberta

Measuring Up - March 31, 2015 audit report on a limited scope of selected performance measures

Ministries and other organizations

The following ministries and organizations engaged us to review[4] selected performance measures in their March 31, 2015 annual reports. We issued unqualified review engagement reports on the limited scope of measures reviewed.

- Aboriginal Relations
- Agriculture and Rural Development
- Culture and Tourism
- Education
- Energy
- Environment and Sustainable Resource Development
- Executive Council
- Health
- Human Services
- Infrastructure
- Innovation and Advanced Education
- International and Intergovernmental Relations
- Jobs, Skills, Training and Labour
- Justice and Solicitor General
- Municipal Affairs
- Service Alberta
- Transportation
- Treasury Board and Finance
- Alberta Pension Services Corporation*

*December 31, 2014 annual report

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[4] A review is not an audit, and provides a limited/moderate level of assurance.

APPENDIX C—2015 SYSTEMS AUDITING REPORTS

March 2015 Public Report

Stand-alone auditing

New	
Education	• Systems to Improve Attendance in Northland School Division
Energy	• Alberta Energy Regulator—Systems to Regulate Pipeline Safety and Reliability in Alberta
Environment and Sustainable Resource Development	• Flood Mitigation Systems • Systems to Regulate Dam Safety
Follow-up	
Innovation and Advanced Education	• Medicine Hat College International Education Division

October 2014 Public Report

Stand-alone auditing

New	
Environment and Sustainable Resource Development	• Alberta Environmental Monitoring, Evaluation and Reporting Agency—Joint Canada–Alberta Plan for Oil Sands Monitoring
Health	• Crown's Right of Recovery of Healthcare Costs from Motor Vehicle Accidents
Service Alberta	• IT Disaster Recovery Program
Treasury Board and Finance	• Collection of Outstanding Corporate Taxes • Various Departments—Contracting
Follow-up	
Environment and Sustainable Resource Development	• Natural Resources Conservation Board—Confined Feeding Operations
Health	• Seniors Care in Long-term Care Facilities

September 2014 Public Report

Stand-alone auditing

New	
Health	• Chronic Disease Management

August 2014 Special Duty Report

Stand-alone auditing

New

Expenses of the Office of Premier Redford and Alberta's Air Transportation Services Program

July 2014 Public Report

Stand-alone auditing

New

Treasury Board and Finance	• Results Analysis Reporting

Follow-up

Energy	• Alberta's Bioenergy Grant Programs
Environment and Sustainable Resource Development	• Climate Change • Management of Sand and Gravel Resources
Health	• Alberta Health Services—Contracted Surgical Facilities
Innovation and Advanced Education	• Athabasca University—Administrative Systems Renewal Project
Transportation & Justice and Solicitor General	• Commercial Vehicle Safety
Treasury Board and Finance	• Executive Corporate Credit Cards

By-product of financial statements auditing (current and follow-up*)

March 2015		
	Innovation and Advanced Education	Report on post-secondary institutions
	International and Intergovernmental Relations	Alberta's international offices**
October 2014		
	Aboriginal Relations	Improve estimation processes
	Agriculture and Rural Development	Enterprise risk management Employee misconduct allegations
	Education	Obtaining an interest in land
	Energy	Improve financial reporting processes
	Environment and Sustainable Resource Development	Security patch management of servers
	Health	Follow processes for hiring and termination of executives Information technology control policies and processes**
	Human Services	Improve access control processes
	Innovation and Advanced Education	Improve financial reporting processes
	Justice and Solicitor General	IT risk assessment and IT control framework
	Municipal Affairs	Effectiveness of seniors lodge programs and determining future needs**
	Tourism, Parks and Recreation	Enhance documentation to support senior management expenses
	Treasury Board and Finance	Enterprise risk management systems Improve access controls over the tax and revenue administration systems Corporate tax refunds Valuing investments in life settlements Service auditor reports**
July 2014		
	Treasury Board and Finance	Budget for financial reporting

* selected by-product systems audits are listed

** recommendation(s) repeated

The public reports of the Auditor General of Alberta are available online at http://www.oag.ab.ca/reports

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

AUDITOR
GENERAL
Alberta

Legislative Assembly of Alberta
Office of the Auditor General
Management's Responsibility for Financial Reporting

The accompanying financial statements of the Office of the Auditor General, including the performance measures, are the responsibility of office management.

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards. Financial statements are not precise, since they include certain amounts based on estimates and judgments. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances to ensure that the financial statements are presented fairly in all material respects.

The Office of the Auditor General maintains control systems designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the relevance and reliability of internal and external reporting, and compliance with authorities. The costs of control are balanced against the benefits, including the risks that the control is designed to manage.

The financial statements, including performance measure results, have been audited by St. Arnaud Pinsent Steman, Chartered Accountants, on behalf of the members of the Legislative Assembly.

[Original signed by Merwan N. Saher, FCA]

Auditor General
June 29, 2015

FINANCIAL STATEMENTS (AUDITED)—MARCH 31, 2015

Legislative Assembly of Alberta
Office of the Auditor General
Financial Statements
March 31, 2015

Independent Auditors' Report

Statement of Operations

Statement of Financial Position

Statement of Cash Flows

Notes to the Financial Statements

Schedule 1: Lines of Business Cost by Sector and Ministry

Schedule 2: Performance Measures Summary

ST. ARNAUD PINSENT STEMAN
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Members of the Legislative Assembly

Report on the Financial Statements

We have audited the accompanying financial statements of the Legislative Assembly of Alberta Office of the Auditor General, which comprise the statement of financial position as at March 31, 2015, and the statement of operations and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting principles, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian public sector auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Unqualified Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Legislative Assembly of Alberta Office of the Auditor General as at March 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting principles.

[ORIGINAL SIGNED BY JOHN H.C. PINSENT PROFESSIONAL CORPORATION]

June 29, 2015

John H.C. Pinsent Professional Corporation
Chartered Accountant

Legislative Assembly of Alberta
Office of the Auditor General
Statement of Operations
Year Ended March 31, 2015

	2015 Budget	2015 Actual	2014 Actual
Expenses			
Personnel			
Salaries and wages (Note 7)	$ 14,945,000	$ 14,763,405	$ 13,844,254
Agent and other audit services fees	4,580,000	4,493,860	4,757,443
Employer contributions	3,655,000	3,554,290	3,438,991
Temporary staff services	1,300,000	1,094,118	1,124,257
Advisory services	270,000	375,049	274,785
	24,750,000	24,280,722	23,439,730
Supplies and services			
Training and professional fees	880,000	937,390	841,686
Travel	580,000	595,773	556,007
Technology services	450,000	514,983	435,884
Materials and supplies	205,000	218,622	238,742
Telephone and communications	85,000	80,563	78,999
Rental of office equipment	50,000	52,423	51,004
Repairs and maintenance	25,000	18,962	24,150
Miscellaneous	20,000	19,879	18,607
	2,295,000	2,438,595	2,245,079
Total professional services expenses	27,045,000	26,719,317	25,684,809
Add: amortization of tangible capital assets	370,000	291,800	141,778
Total operating expenses	27,415,000	27,011,117	25,826,587
Less: audit fee revenue	-	-	(952,689)
Cost of operations for the year (Note 6)	$ 27,415,000	$ 27,011,117	$ 24,873,898

The accompanying notes and schedules are an integral part of these financial statements.

Legislative Assembly of Alberta
Office of the Auditor General
Statement of Financial Position
As at March 31, 2015

	2015	2014
Assets		
Accounts receivable and prepaids	$ 168,767	$ 271,563
Tangible capital assets (Note 3)	562,443	579,684
	$ 731,210	$ 851,247
Liabilities		
Accounts payable and accrued liabilities	$ 1,959,668	$ 2,046,136
Accrued vacation pay	2,253,042	2,082,458
	4,212,710	4,128,594
Net Assets (Liabilities)		
Net liabilities at beginning of year	(3,277,347)	(1,371,157)
Cost of operations	(27,011,117)	(24,873,898)
Net financing provided from General Revenues	26,806,964	22,967,708
	(3,481,500)	(3,277,347)
	$ 731,210	$ 851,247

The accompanying notes and schedules are an integral part of these financial statements.

Legislative Assembly of Alberta
Office of the Auditor General
Statement of Cash Flows
Year Ended March 31, 2015

	2015	2014
Operating transactions:		
Cost of operations	$ (27,011,117)	$ (24,873,898)
Non-cash item included in cost of operations:		
Amortization of tangible capital assets	291,800	141,778
	(26,719,317)	(24,732,120)
Decrease in audit fees revenue receivable	-	1,757,238
(Increase) Decrease in accounts receivable and prepaids	102,796	(120,147)
Increase (Decrease) in accounts payable and accrued liabilities	(86,468)	380,824
Increase in accrued vacation pay	170,584	211,394
Net cash applied to operating transactions	(26,532,405)	(22,502,811)
Capital transactions:		
Acquisition of tangible capital assets	(274,559)	(464,897)
Financing transactions:		
Net financing provided from General Revenues	26,806,964	22,967,708
Net cash provided	-	-
Cash, beginning of year	-	-
Cash, end of year	$ -	$ -

The accompanying notes and schedules are an integral part of these financial statements.

Legislative Assembly of Alberta
Office of the Auditor General
Notes to the Financial Statements
Year Ended March 31, 2015

Note 1 Authority and Purpose

The auditor general is an officer of the Legislature operating under the authority of the *Auditor General Act, Chapter A-46, Revised Statutes of Alberta 2000*. General revenues of the Province of Alberta fund both the cost of operations of the Office of the Auditor General and the purchase of tangible capital assets. The Standing Committee on Legislative Offices reviews the office's annual operating and capital budgets.

The Office of the Auditor General serves the Legislative Assembly of Alberta and Albertans. Our mandate is to conduct comprehensive risk-based audits and report publicly on government's management of, and accountability practices for, the public resources entrusted to it. The auditor general is the auditor of every government ministry, department, regulated fund and provincial agency, including ATB Financial, Alberta Health Services and public post-secondary institutes. With the approval of the Assembly's Standing Committee on Legislative Offices, the auditor general may also be appointed auditor of a Crown-controlled corporation or another organization. The results of the office's work are included in the public reports of the auditor general presented to the Legislative Assembly.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian public sector accounting standards.

(a) Expenses

Directly incurred
Directly incurred expenses are those costs incurred under the authority of the office's budget (Note 5).

Incurred by others
Services contributed by other entities in support of the office's operations are not recognized and are disclosed in Note 6.

Pension expense
Pension costs included in the directly incurred expenses as part of these statements refer to employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years and are disclosed in Note 4.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(b) Financial instruments

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable and prepaids, accounts payable and accrued liabilities, and accrued vacation pay are estimated to approximate their carrying values because of the short-term nature of these instruments.

The office does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions. There are no remeasurement gains and losses and therefore a statement of remeasurement gains and losses has not been presented.

(c) Tangible capital assets

Tangible capital assets are recorded at historical cost less accumulated amortization and the threshold for capitalizing new assets is $5,000. Amortization begins when the assets are put into use and is recorded on a straight-line basis over the estimated useful lives of the assets (Note 3).

(d) Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

(e) Net liabilities

Net liabilities represent the difference between the office's liabilities and the carrying value of its assets.

Canadian public sector accounting standards require a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. The office operates within the government reporting entity, and does not finance its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(f) Revenue

Audit fee revenue was reported on the accrual basis of accounting when billable financial statements audits were performed. Audit fees were charged to organizations that were funded primarily from sources other than provincial general revenues. Effective for auditee year-ends post March 31, 2013, the office ceased the practice of billing organizations. 2013–2014 was the last fiscal year the office had audit fee revenue.

(g) Lines of business costs

Schedule 1 provides detail of the office's lines of business costs by sector and ministry.

Note 3 Tangible Capital Assets

	Computer hardware	Computer software	Office furniture	2015 Total	2014 Total
Estimated useful life	3 years	3 years	10 years		
Historical cost					
Beginning of year	$ 1,598,246	$ 224,681	$ 593,940	$ 2,416,867	$ 2,919,690
Additions	209,870	17,110	47,579	274,559	464,897
Disposals, including write-downs	(540,096)	-	-	(540,096)	(967,720)
	1,268,020	241,791	641,519	2,151,330	2,416,867
Accumulated amortization					
Beginning of year	1,069,947	220,036	547,200	1,837,183	2,663,125
Amortization expense	270,302	4,644	16,854	291,800	141,778
Effect of disposals	(540,096)	-	-	(540,096)	(967,720)
	800,153	224,680	564,054	1,588,887	1,837,183
Net book value at March 31, 2015	$ 467,867	$ 17,111	$ 77,465	$ 562,443	
Net book value at March 31, 2014	$ 528,299	$ 4,645	$ 46,740		$ 579,684

Note 4 Benefit Plans

The office participates in multi-employer pension plans: Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $2,328,839 for the year ended March 31, 2015 (2014: $2,189,398). The office is not responsible for future funding of the plan deficit other than through contribution increases.

Note 4 Benefit Plans (continued)

At December 31, 2014, the Management Employees Pension Plan reported a surplus of $75,805,000 (2013: surplus $50,457,000), the Public Service Pension Plan reported a deficiency of $803,299,000 (2013: deficiency $1,254,678,000) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $17,203,000 (2013: deficiency $12,384,000).

The office also participates in a multi-employer Long Term Disability Income Continuance Plan. At March 31, 2015, the Management, Opted Out and Excluded Plan reported an actuarial surplus of $32,343,000 (2014: surplus $24,055,000). The expense for this plan is limited to the employer's annual contributions for the year.

Note 5 Budget

The budget shown on the statement of operations is based on the budgeted expenses that the Standing Committee on Legislative Offices approved on November 29, 2013. The following table compares the office's actual expenditures, excluding non-voted amounts such as amortization, to the approved budgets:

	Voted budget	Actual	Unexpended
Operating expenses			
Total professional services expenses	$27,045,000	$26,719,317	$ 325,683
Capital spending	255,000	274,559	(19,559)
	$27,300,000	$26,993,876	$ 306,124

Note 6 Expenses Incurred by Others

The office had transactions with other entities for which no consideration was exchanged. The amounts for the following transactions are estimated based on the costs incurred by the service provider.

	2015	2014
Expenses incurred by Alberta Infrastructure accommodation	$ 983,947	$ 970,308
Expenses incurred by Service Alberta technology services	$ 166,000	$ 159,000
Expense incurred by the Legislative Assembly Office audit fee	$ 33,500	$ 30,000

Note 7 Salary and Benefits Disclosure

2015

	Pensionable base salary	Cash benefits(1)	Non-cash benefits(2)	Total	Cashed out vacation	Total including cashed out vacation
Auditor General(3)	$ 272,916	$ -	$ 66,305	$ 339,221	$ 15,685	$ 354,906
Assistant Auditor General(4)	202,651	-	47,988	250,639	-	250,639
Assistant Auditor General(5)	196,748	-	46,502	243,250	15,076	258,326
Assistant Auditor General(6)	177,123	-	43,899	221,022	20,359	241,381
Assistant Auditor General(7)	177,123	26,568	5,550	209,241	-	209,241
Executive Director(8)	177,123	40,738	5,438	223,299	-	223,299
	$ 1,203,684	$ 67,306	$ 215,682	$ 1,486,672	$ 51,120	$ 1,537,792

2014

	Pensionable base salary	Cash benefits(1)	Non-cash benefits(2)	Total	Cashed out vacation	Total including cashed out vacation
Auditor General(3)	$ 254,820	$ 1,850	$ 83,213	$ 339,883	$ 13,669	$ 353,552
Assistant Auditor General(4)	192,890	1,850	54,909	249,649	-	249,649
Assistant Auditor General(5)	189,690	1,850	53,041	244,581	14,536	259,117
Assistant Auditor General(6)	164,000	1,850	44,522	210,372	-	210,372
Assistant Auditor General(7)	164,000	26,450	5,600	196,050	-	196,050
Assistant Auditor General(9)	73,904	-	21,245	95,149	-	95,149
	$ 1,039,304	$ 33,850	$ 262,530	$ 1,335,684	$ 28,205	$ 1,363,889

(1) Cash benefits include lump sum payments, payments in lieu of certain employer contributions towards non-cash benefits such as long-term disability insurance and pensions. No bonuses were paid in 2015 and 2014.

(2) Non-cash benefits include the office's share of all employee benefits, and contributions or payments made on behalf of employees including pension, supplementary retirement plans, health care, dental coverage, group life insurance, short and long term disability plans, WCB premiums, professional memberships and tuition fees.

(3) Non-cash benefits for the auditor general paid by the office includes $11,061 (2014: $10,995) being the lease, fuel, insurance and maintenance expenses for an automobile provided.

Responsibilities of the Assistant Auditors General and Executive Director as at March 31, 2015 are as follows:

(4) Executive Council, Health, Human Services, Legislative Assembly, Measuring Up and Ministry Performance Measures, Seniors

(5) Infrastructure, Municipal Affairs, Treasury Board and Finance

(6) Aboriginal Relations, Education, Innovation and Advanced Education, International and Intergovernmental Relations, Jobs, Skills, Training and Labour, Transportation

Note 7 Salary and Benefits Disclosure (continued)

(7) Agriculture and Rural Development, Culture and Tourism, Energy, Environment and Sustainable Resource Development, Justice and Solicitor General, Service Alberta

(8) Corporate Services and Office Accountability. Became a member of the Office Leadership Team on November 1, 2014. Amount reported is the salary and benefits for the full year.

(9) Left on August 9, 2013 (5.3 months in 2014)

Note 8 Comparative Figures

Certain 2015 budget and 2014 actual figures have been reclassified to conform to the 2015 actual presentation.

Note 9 Approval of the Financial Statements

These financial statements were approved by the auditor general.

Schedule 1

Legislative Assembly of Alberta
Office of the Auditor General
Lines of Business Costs by Sector[1] and Ministry
For the Year Ended March 31, 2015

	2015 Budget[2]			2015 Actual			2014 Actual[2]		
	Auditing			Auditing			Auditing		
	Financial statements[3]	Systems[4]	Total	Financial statements[3]	Systems[4]	Total	Financial statements[3]	Systems[4]	Total
Alberta's Economic Future									
Aboriginal Relations	$ 107,000	$ -	$ 107,000	$ 143,000	$ 26,000	$ 169,000	$ 78,000	$ 378,000	$ 456,000
Agriculture and Rural Development	793,000	123,000	916,000	630,000	91,000	721,000	702,000	44,000	746,000
Infrastructure	210,000	297,000	507,000	216,000	295,000	511,000	231,000	45,000	276,000
Innovation and Advanced Education	4,910,000	493,000	5,403,000	4,729,000	382,000	5,111,000	5,198,000	671,000	5,869,000
International and Intergovernmental Relations	83,000	-	83,000	84,000	17,000	101,000	63,000	30,000	93,000
Culture and Tourism	396,000	-	396,000	554,000	-	554,000	420,000	-	420,000
	6,499,000	913,000	7,412,000	6,356,000	811,000	7,167,000	6,692,000	1,168,000	7,860,000
Families and Communities									
Education	677,000	437,000	1,114,000	527,000	700,000	1,227,000	572,000	280,000	852,000
Health	2,345,000	1,811,000	4,156,000	2,396,000	1,473,000	3,869,000	2,511,000	1,449,000	3,960,000
Human Services	1,322,000	763,000	2,085,000	616,000	203,000	819,000	1,559,000	274,000	1,833,000
Jobs, Skills, Training and Labour	529,000	-	529,000	469,000	47,000	516,000	501,000	2,000	503,000
Justice and Solicitor General	542,000	137,000	679,000	439,000	67,000	506,000	457,000	148,000	605,000
Seniors	178,000	68,000	246,000	279,000	260,000	539,000	274,000	268,000	542,000
Service Alberta	518,000	241,000	759,000	509,000	188,000	697,000	553,000	167,000	720,000
	6,111,000	3,457,000	9,568,000	5,235,000	2,938,000	8,173,000	6,427,000	2,588,000	9,015,000
Resource Stewardship									
Energy	979,000	506,000	1,485,000	970,000	758,000	1,728,000	796,000	298,000	1,094,000
Environment and Sustainable Resource Development	793,000	1,149,000	1,942,000	673,000	1,844,000	2,517,000	608,000	775,000	1,383,000
Municipal Affairs	442,000	-	442,000	568,000	71,000	639,000	469,000	90,000	559,000
Transportation	190,000	23,000	213,000	284,000	67,000	351,000	265,000	18,000	283,000
Treasury Board and Finance	5,090,000	637,000	5,727,000	4,872,000	707,000	5,579,000	4,362,000	892,000	5,254,000
	7,494,000	2,315,000	9,809,000	7,367,000	3,447,000	10,814,000	6,500,000	2,073,000	8,573,000
Executive Council	80,000	245,000	325,000	102,000	488,000	590,000	64,000	35,000	99,000
Legislative Assembly	301,000	-	301,000	267,000	-	267,000	280,000	-	280,000
	381,000	245,000	626,000	369,000	488,000	857,000	344,000	35,000	379,000
	$20,485,000	$6,930,000	$27,415,000	$19,327,000	$7,684,000	$27,011,000	$19,963,000	$5,864,000	$ 25,827,000
Percentage of costs dedicated to financial statements/systems auditing	75%	25%	100%	72%	28%	100%	77%	23%	100%

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[1] Ministry auditing work is aligned with the government's 2015 priority areas.

[2] Certain figures have been reclassified to conform to the current Ministry organization.

[3] Financial statements audits include reporting on financial statements, compliance with authorities, performance measures, results analysis, and research and advice.

[4] Systems audits examine major programs or initiatives an organization undertakes to achieve its goals.

Schedule 2

Legislative Assembly of Alberta
Office of the Auditor General
Performance Measures
Year Ended March 31, 2015

Performance measures	Actual 2013	Actual 2014	Target 2015	Actual 2015
Relevant auditing				
Percentage of the auditor general's recommendations accepted for implementation[1] *(also Reliable)*	98%	89%	95%	91%
Number of auditor general's recommendations not implemented within three years of acceptance	55	47	Zero	50
Issue auditor's report on Alberta's consolidated financial statements by June 30 (for the preceding March 31 fiscal year-end)	June 21, 2012	June 20, 2013	June 30, 2014	June 19, 2014
Percentage of costs dedicated to systems/financial statements auditing[2] *(also Reasonable cost)*	24:76%	23:77%	25:75%	28:72%
Reliable auditing				
Institute of Chartered Accountants of Alberta's conclusion that the office's financial statements audits meet practice review standards[3] *(also Relevant and Reasonable Cost)*	Met	Next review expected in 2016	Next review expected in 2016	Next review expected in 2016
Reasonable cost auditing				
Staff turnover and vacancy rate *(also Reliable)*	21%	18%	Under 20%	15%
Percentage of financial statements audits completed within budget	67%	59%	90%	64%

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[1] Acceptance for implementation does not include audit recommendations accepted in principle or under review.

[2] The goal is to reach 30:70% by March 31, 2018.

[3] The practice review is done triennially.

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